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Central Eurasia SUPPLEMENT

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***CIS Joint Stance on Tajik Civil War Viewed**
954F2222A Moscow MOSCOW NEWS in English
21-27 Apr 95 No 15, p 4

[Article by Sanobar Shermatova: "Tajik Crisis Splits Former Allies"; first paragraph is introductory paragraph]

[FBIS Transcribed Text] Traditionally pro-Russian Central Asia is revealing the first signs of discontent with Russian policy towards that region. This is first of all connected with the events on the Tajik-Afghan border.

For the first time in three years of confrontation on the Tajik-Afghan border, the neutrality adopted in private between the frontier guards and the self defense forces of Badakhshan was seriously violated. As a result of clashes, according to the official Russian information, more than 30 frontier guards were killed.

On April 14 the presidents of Kazakhstan, Uzbekistan and Kyrgyzstan urgently met in Chimkent, South Kazakhstan, to discuss the border situation. In reply to the Chimkent meeting, Boris Yeltsin suggested that a joint session of the councils of defense and foreign ministers of Tajikistan, Uzbekistan, Kyrgyzstan, Kazakhstan and Russia be held in Moscow. The session is tentatively scheduled for April 20-21. Special UN envoy to Tajikistan Ramiro Perez Ballon, after meeting with President Rakhmonov in Dushanbe, held negotiations in the north of Afghanistan with Said Abdullo Nuri, leader of the opposition, and then took a plane to Moscow. As a result of these meetings he managed to secure an agreement on holding consultations in Moscow between the Tajik opposition and official Dushanbe. This may develop into the fourth round of talks if the sides come to a compromise. As soon as this decision was adopted, opposition detachments no longer displayed activity on the border and the clashes stopped. Casualties were needed to stir up Dushanbe and Moscow. The present diplomatic activity has been paid for with the lives of the killed from both sides.

The first sign of the revision of positions was the meeting of the three presidents in Chimkent. As is known, the President of Uzbekistan, Islam Karimov, met with the representatives of the Tajik opposition on April 4 in Tashkent where the common assessment of the Tajik situation and proposals on settling the conflict were worked out. It may be assumed that the Uzbek president acquainted his colleagues with them. But the President of Kazakhstan, Nursultan Nazarbayev, did not come to Chimkent in a peacekeeping mood. The day before, the bodies of 17 frontier guards killed in the latest clashes on the border were brought there. Taking into consideration the closeness of the

announced referendum on prolonging the presidential powers till the year 2000, it was deemed necessary in Kazakhstan to hold the mourning ceremonies without unnecessary publicity. This fact could not but influence the contacts of Nazarbayev and Karimov in Chimkent: Russia and Kazakhstan found themselves in the same trench whereas Uzbekistan, holding separate talks with the opposition, happily stepped aside.

It may be expected that Kyrgyzstan will join Uzbekistan and withdraw its battalion from Tajikistan. According to some information, the Tajik opposition, if the negotiations in Moscow fail, is preparing strikes at the frontier posts.

At any rate the positions will be cleared up at the sessions of the councils of defense and foreign ministers of the four Central Asian republics and Russia in Moscow. Judging by Yeltsin's statement on the need for "working out additional collective measures in keeping with the decisions passed earlier by the heads of the CIS countries," Russia will insist on increasing the military presence in Tajikistan and the fulfillment by Uzbekistan, Kazakhstan and Kyrgyzstan of their allied commitments. If Tashkent, Alma-Ata and Bishkek stick to common positions, Russia will have to reckon with this and, to a certain extent, to correct its own stand. But the affair may take another turn. Too strong are the political, military and economic interests of Kyrgyzstan and Kazakhstan in Russia, and also in the customs union. According to some information, Russia, Belarus and Kazakhstan have agreed privately to not allow anyone to join the union till the end of the year, but it was made clear to Kyrgyzstan that it has chances of finding itself in this union. In this situation only Tashkent and Moscow may hold extreme positions, whereas Bishkek and Alma-Ata will probably support both sides to some extent. But today the Western factor is becoming the most realistic in Central Asia. Pentagon chief William Perry early in April made official visits to Alma-Ata and Tashkent and, judging by confidential information, expressed concern about the increasing military presence of Russia in the Central Asian republics. The agreements achieved by the defense secretary with the Kazakh and Uzbek authorities mean the beginning of military-technical cooperation and active United States infiltration in this region.

All these events show that the Tajik problem increasingly draws the attention of international organizations and Western countries. The latest demand of Afghanistan to convene the UN Security Council to condemn the bombings on Afghan territory by the Russian air force also contributes to repercussions. (This statement is contended by Russia's foreign ministry.)

Western influence may influence Russia's positions in Central Asia considerably, which even today cannot be called stable. It concerns Yeltsin's recent statement "on the Russian side having no intention to ratify the agreement between Russia and Turkmenistan on joint measures in connection with the formation of the Armed Forces of Turkmenistan, signed on July 31, 1992."

According to Kamil Kalandarov, press-attache of the Turkmen embassy in Moscow, the reason is purely technical: Turkmenistan completed the development of the national army and, accordingly, there is no need for aid. But the hidden motive should probably be sought in the political sphere. Turkmenistan (along with Azerbaijan and Ukraine) stubbornly opposes signing within the CMEA framework, agreements on the joint

guarding of borders and the creation of a single air defense regime. What's more, Russia cannot approve the projects of building gas and oil pipelines to the south via Iran and Turkey towards Europe. After the realization of these projects in the future, Turkmenistan may press Russia, today the leading supplier of gas to Europe. Besides, Turkmenistan has declared positive neutrality on its territory and has refused to join any military alliances. Now Russia must withdraw its air defense units and air force from Turkmenistan. It is the right time to recall the situation with another republic which also abounds in power resources. After the ahead-of-time withdrawal of the Russian airborne division in Gyandzha, there were a number of military coups in Azerbaijan, one after the other, and this situation continues up to this day.

Economic Issues

***Duma Deputy Tarasov Views Economic Situation**

954E0919A Moscow ROSSIYA in Russian

No 11, 26 Apr-02 May 95 p 4

[Interview with State Duma Deputy Artem Tarasov, by Vasily Ustyuzhanov; place and date not given; under the "Cast of Characters" heading: "Businessmen Need Government Guarantees"]

[FBIS Translated Text] *From our file. Artem Mikhaylovich Tarasov is a Russian State Duma deputy, member of the Duma's committee on security, member of the New Regional Policy deputy group, and president of Kenmore Service Ltd. (London). He was born on 4 July 1950; an ethnic Russian, higher education; graduated from the Moscow Mining Institute (engineer-physicist), Moscow Institute of Electronic Machine Building (electrical engineer), Advanced Courses in Economics of the USSR State Planning Commission (economics), and University of Pennsylvania, United States (international management, banking); a candidate of technical sciences.*

Artem Tarasov's notoriety began in 1990 in connection with the scandal that broke out regarding the famous ANT [Automation, Innovation, Technology] company (arms sales) case and in connection with the Harvest '90 vouchers fiasco. In both instances, Tarasov's culpability was not proved.

[Ustyuzhanov] Artem Mikhaylovich, half a year ago you became head of the parliamentary commission on economic amnesty. Is there something to report?

[Tarasov] There is. According to the data we received from the MVD [Ministry of Internal Affairs] and the procuracy, about 100,000 persons serving time for various economic crimes have been released from correctional facilities. Some of the charges against them are simply ridiculous: from overstating fulfillment of the plan to opening an auxiliary shop in a kolkhoz without permission. We will soon sum up the amnesty's results. According to our information, another 10,000 entrepreneurs and economic managers are still held in jail. I want to use this opportunity to say that I am willing to aid all released economic managers to find a place in this life. They are welcome to call on me.

[Ustyuzhanov] The domestic and Western press are creating an image of Russia as a state with a criminal economy. This is a scary image.... Are you not afraid?

[Tarasov] To me, as a businessman, it is clear why it is being done. The West gains from this because in this case all business contacts remain in the hands of Western brokers. The Russian authorities like it too, because it enables the state, in the form of its administrative

organs, to retain control over all entrepreneurial structures, provoke distrust toward the private sector and, vice versa, promotes the role of the state as the defender of, and bread-winner for, the people: Come under my wing, it says, give me your money, and I will find where to apply it.

As to fear—if you are afraid of wolves, do not go into the forest. Anyway, fear is a primal feeling. I do not think about it.

[Ustyuzhanov] In your opinion, is the criminal situation in Russia different?

[Tarasov] It is rather bad, but not as bad as the mass media presents it. This dark image costs the country trillions. Russian stocks are sold abroad by foreign brokerage companies instead of by stock owners—Russian enterprises and firms. Interest in buying Russian securities on the part of Western investors grows with each passing month. And how! The latest weekly sales of Russian securities in London amounted to \$800 million. An 80-fold increase! For instance, the Komi stock, whose nominal value per share is 100 rubles [R], goes there for \$56 today. But this stock is purchased in Komi for \$19. This is how much just the Komi Republic alone loses, because it is hard to travel to England from there, and because artificial roadblocks have been erected on the road of free flow of capital and people's migration.

[Ustyuzhanov] So you are saying that Western investors do not particularly listen to rumors and scare tactics?

[Tarasov] They are wiser than that—they rely on the analysis of the concrete economic situation, the figures. And only on this basis they draw conclusions whether to invest or not. Hence the interest in stocks of Russian enterprises. As to real investment in industrial projects, however, it still has not materialized.

[Ustyuzhanov] Do you see the presidential edict on combating banditism and organized crime as a boon?

[Tarasov] No. It has actually played more into the hands of the West and criminal groups than really protected honest entrepreneurs. It has shackled the police hand and foot. This is simply a political act that shows the world: Look how bad everything is here. Has it done anything positive for the MVD? Nothing. Only discredited law enforcement organs. Very few actual economic criminals have been arrested under this edict. The actions permitted by the edict mainly are not pursued anywhere. Judges prefer to stick to the Constitution. And I will tell you that if I am held in detention for 30 days, as the edict permits, instead of the 48 hours permitted by the Constitution, I will win any trial. Even if I am caught at the scene of a

murder. Because none of the confessions obtained from me this way will be admissible in court—they would have been wrung out in violation of the Constitution. So investigators try their best not to use the edict, because they want to see the case through to the end. Otherwise, they lose it before it even goes to trial. What in the world are presidential advisers doing, what are they drafting?

[Ustyuzhanov] But businessmen get shot at, get killed in Russia.

[Tarasov] And, unfortunately, it will continue. This is a typical phenomenon for a wild market. But we could have avoided it in Russia, had we chosen the right road to the market and used the experience accumulated by those who had entered the market before us. The degree of civilization in the world market has advanced so much that had we used even a fraction of it, we would not have these turf wars, monopolists, and financial pyramids.

Alas, most national leaders have never lived in market conditions. And therefore it is easier for them to call up enforcement structures and exhort citizens to beware than to engage in the development of market infrastructures. I see how many mistakes they make every day and how much Russia loses, and this makes me terribly depressed.

[Ustyuzhanov] What then do you, a businessman, need?

[Tarasov] Instead of the stewardship of enforcement structures, I, a businessman, need first of all normative acts that will give the green light to my projects and intentions to make the country more prosperous, or myself, for that matter, although the latter concerns me much less. I need first of all guarantees protecting investment in Russia. Nobody will voluntarily return the exported capital to Russia as long as there is the danger that it will be confiscated or frozen. Which means that Russia's sovereigns must choose between two things: Either squeeze the entrepreneur and force him to repatriate the capital, and as a result have no gain from it (because in this case the capital flight will increase). Or say: All right, you took it out, but we are creating conditions for your capital to work for Russia. That is, certain terms of amnesty for the capital are needed. If you invest, for instance, in the social sphere—build a hospital or a baby food plant. As soon as exported Russian capital begins to work, solid Western firms will immediately begin to invest. When they see that part of the capital in this plant has been invested by Russians themselves, they will realize that they can do business with us. It has happened the same way everywhere—in Argentina, Brazil, Chile, China, where Western capital moved boldly, because

roadblocks for its movement had been removed there. In Russia, we do not see it.

I need the government to guarantee that it will not attempt to finagle information from a Western investment fund on who is investing capital in Russia. Because along with me there will be some Arab sheik there. And if our dear KGB-FSK [Federal Counterintelligence Service] leans on him, we will never see the money again. This is what our rulers cannot understand. More than anything else, though, Russia needs an open economic policy today. Otherwise, the communists' running in place and lamenting will become the never-ending tale of our reforms. While real private investments, without which our economy is suffocating, will stay where they are—in planning folders.

[Ustyuzhanov] So, in your opinion, the entrepreneur has not become the No. 1 figure of the times of reforms in Russia?

[Tarasov] He has not become a No. 2 either, or even No. 3. Of course, in a market society the entrepreneur is the No. 1 figure. In our country in the past, the proletariat was at the top. Everyone else was his servant. Now the equation has changed. The bureaucrat has moved to the top. But in a free-market country the bureaucracy serves the entrepreneur. This is normal; this is the way it should be. Here, however, the entrepreneur today serves the bureaucrat. This is the root of the evil. In a society where the entrepreneur serves the bureaucrat, crime and bribery will flourish. And as a result, what we build will be anything but free-market economy. Nothing to add to this.

[Ustyuzhanov] How do we then change the situation? Teach the rulers? Change the authority? And anyway, what party are you affiliated with, Artem Mikhaylovich?

[Tarasov] None. And I will not join any. In any case, our public opinion does not perceive well the word "party." As to presidential elections, maybe I will participate. But only as an independent candidate. As a candidate from business, from the entrepreneurs. If I find it necessary and if I find the money for it.

[Ustyuzhanov] With you, I have no doubt regarding the latter....

[Tarasov] And you know where I will get it? Write it down—abroad. I state openly that I will get it from those investors who today have invested their money and are afraid to lose it in Russia. From those investors who understand that if an entrepreneur comes to power in Russia, only then will they be able to invest in industry. They offer any amount to me today. Go ahead, go for it. We will pay for everything. I will tell the voters openly where I got the money. Gaydar is shy about

taking the money from abroad. Zhirinovskiy, who takes money from some nationalist movements, is shy about showing up in Russia with this money. And for the communists it would be just ridiculous. But for me it is not. I am financed by the West. For them, I am one of their own. They want to see a civilized market here. And I will openly take the money from these people to finance the election campaign, and will show the voters how much they gave me. And will make them put some money into financing charitable undertakings, to get people to support me. I have not yet made a final decision for myself, but it could happen that I will run. Because looking at the leaders who lay a claim on the presidency today, I do not see any cardinal positive changes for Russia in the future. We, on the other hand, are willing to work 24 hours a day to pull Russia out of the pit it has been buried in by its old and new rulers.

***Foreign Trade Bank on Results of Activities in 1994**

954E0904A Moscow KOMMERSANT-DAILY
in Russian 25 Apr 95 p 5

[Article by M. Aksimov: "At the Bank They Do Not Believe in Early Withdrawal of the Central Bank as Stockholder"]

[FBIS Translated Text] A press conference was given in Moscow yesterday by the Foreign Trade Bank of the Russian Federation (Vneshtorgbank) which was devoted to results of the general stockholders meeting that took place on 21 April. The meeting resolved to pay a 5 percent dividend on shares paid for in foreign currency and 190 percent on shares paid for in rubles.

Nevertheless this dividend distribution may be the last one this year for the Central Bank—the largest stockholder of Vneshtorgbank (its share of the authorized capital amounts to 96.8 percent). If the law on the Central Bank of the Russian Federation is adopted by the Federation Council, the Central Bank will have to give up its share. In response to the question of who might become the potential owner of Vneshtorgbank of Russia, Yuriy Poyayetayev, chairman of the board of directors of the bank, stated that he has some reliable information. He did declare, however, that transfer of the bloc of Vneshtorgbank shares belonging to the government is unrealistic this year. The fact that the bank does not really believe there will be any prompt changes in the composition of its stockholders is also evidenced by the fact that Tatyana Paramonova, acting chairman of the Central Bank, was elected chairman of the board of Vneshtorgbank (replacing Viktor Gerashchenko, who retired.)

Reorientation of active operations of the bank from the international to the domestic (Russian) market became one of the principal peculiarities of the past year according to Vneshtorgbank leadership. That was expressed in the growth of the share of bank operations with securities (GKO [government short-term bonds] and domestic currency bonds of the Ministry of Finance) and interbank credits from 10 to 30 percent. The volume of crediting of Russian enterprises grew by a factor of 6.2 over the past year, which in nominal terms came to over \$600 million, while at the given moment this figure has exceeded \$1 billion.

Such extensive scale of crediting did not lead to a deterioration in the solvency of Vneshtorgbank. The index of past due debts, for instance, came to 3 percent, while the share of owned funds in the total amount of bank assets was 15.58 percent. Among the Russian banks Vneshtorgbank confidently occupies a first-place position in assets and size of owned capital, and it will be hardly possible for anyone to displace it in the immediate future. In 1995 Vneshtorgbank will continue to orient itself toward the servicing of big clients and conduct of wholesale operations.

One of the important events which will take place this year will consist of the introduction of a depository clearing house into operation to service the share turnover of Russian issuers. It should be noted that creation of a unified depository center in Moscow is a very important task and will most probably be welcomed by all participants on the securities market. With the operation of a depository clearing system, the time required to register share transactions will be reduced to a period of from a few days to several minutes.

Vneshtorgbank continues not to plan a large-scale offensive on the private investment market. In the near future, however, it will accept private individuals as clients from among personnel of firms that are serviced by the bank.

Another projected change is the transformation this summer of the department of Vneshtorgbank of Russia operating in Cyprus into a subsidiary bank (Russian Commercial Bank (Cyprus) Ltd.) with an authorized capital of 5 million Cyprus pounds.

Some Operational Indexes of Vneshtorgbank of Russia in 1994

Bank assets doubled last year and amounted to R19.1 billion.

Balance profit increased by a factor of 2.4, exceeding R427.1 billion.

Owned funds decreased by a factor of five and reached R2.8 trillion.

In the structure of revenues, the share obtained from credit operations came to 50.9 percent (a year ago it was 59.7 percent); from operations with securities it was 11.2 percent (0.0 percent a year ago); and from operations on the currency market it was 9 percent (in 1993 it was 7.6 percent).

In the structure of credit investments, loans to enterprises of the gold mining industry amounted to 29.7 percent; retail trade was 16.1 percent; the military-industrial complex was 9.2 percent; nonferrous metallurgy was 7.9 percent; machine building was 7.7 percent; the oil and gas industry was 6.6 percent; the chemical industry was 5.5 percent; and other branches were 17.3 percent.

***Federal Law on Amendments, Additions to Criminal Code**

954E0918A Moscow ROSSIYSKAYA GAZETA
in Russian 27 Apr 95 p 4

[Text of Russian Federation Federal Law "On Making Amendments and Additions to the RSFSR Criminal Code and the RSFSR Criminal Procedure Code," adopted by the State Duma on 22 March 1995]

[FBIS Translated Text]

Article 1

Make the following amendments and additions to the RSFSR Criminal Code (VEDOMOSTI VERKHOVNOGO SOVETA RSFSR, No 40, 1960, Article 59; No 29, 1962, Article 449; No 32, 1966, Article 769; No 23, 1967, Article 533; No 26, 1968, Article 1,010; No 47, 1969, Article 1,361; No 16, 1973, Article 352; No 29, 1974, articles 781 and 782; No 12, 1977, Article 255; No 20, 1980, Article 535; No 41, 1982, Article 1,513; No 49, 1982, Article 1,321; No 37, 1983, Article 1,334; No 29, 1984, Article 992; No 40, 1985, Article 1,398; No 30, 1987, Article 1,087; No 43, 1987, Article 1,501; No 14, 1988, Article 396; and No 50, 1989, Article 1,477; VEDOMOSTI SYEZDA NARODNYKH DEPUTATOV ROSSIYSKOY FEDERATSII I VERKHOVNOGO SOVETA ROSSIYSKOY FEDERATSII, No 47, 1992, Article 2,664; No 10, 1993, articles 360 and 362; No 22, 1993, Article 789; and No 33, 1993, Article 1,313; and SOBRANIYE ZAKONODATELSTVA ROSSIYSKOY FEDERATSII, No 10, 1994, Article 1,109):

1. Add Point 13 with the following content to Article 39:

"13) commission of a crime against a person in connection with his fulfilling his official or public duty or against his close relatives, or persons whose life and health have been infringed upon in an effort to hinder the lawful activity of the official indicated."

2. Reword Point C of Article 102 as follows:

"c) person in connection with his fulfilling his official or public duty or his close relatives, or other persons who were murdered in an effort to hinder the lawful activity of the official indicated."

3. Reword the disposition of the second part of Article 108 as follows:

"Those same actions, if they have been committed against a person in connection with his fulfilling his official or public duty or against his close relatives, or other persons whose life and health have been infringed upon in an effort to hinder the lawful activity of the official indicated, or if these actions led to the death of a victim or were like torment or torture in character or were committed by an especially dangerous recidivist—"

4. Reword the second part of Article 109 as follows:

"Those same actions, if they have been committed against a person in connection with his fulfilling his official or public duty or against his close relatives, or other persons whose life and health have been infringed upon in an effort to hinder the lawful activity of the official indicated, or if these actions were like torment or torture in character or were committed by an especially dangerous recidivist— "are punished with deprivation of freedom for a term of from 2 to 5 years."

5. In the second part of Article 149, after the words "or other grave consequences," add the words "and equally one committed against a person in connection with his fulfilling his official or public duty or against his close relatives, or other persons whose life and health have been infringed upon in an effort to hinder the lawful activity of the official indicated."

6. Reword Article 176-2 as follows:

"Article 176-2. Threat or Violent Actions Against a Judge or Official of a Law Enforcement or Control Organ or Their Close Relatives

"The threat of murder, violence, or destruction or damage to property against a judge, procurator, investigator, agent of the court, person conducting an inquiry, official of a law enforcement or control organ, or associate of a federal organ of state power in connection with the official activity of the officials indicated, or against a

people's assessor or juror in connection with their participation in administering justice, or against their close relatives or other persons whose life and health are infringed upon in an effort to hinder the lawful activity of the officials indicated— "is punished by deprivation of freedom for a term of up to 3 years, or by forced labor for a term of up to 2 years, or by a fine of up to 25 times the minimum labor payment.

"Deliberately causing moderate bodily harm or assault or committing other violent actions against a judge, procurator, investigator, agent of the court, person conducting an inquiry, official of a law enforcement or control organ, or associate of a federal organ of state power in connection with the official activity of the officials indicated, or against a people's assessor or juror in connection with their participation in administering justice, or against their close relatives or other persons whose life and health are infringed upon in an effort to hinder the lawful activity of the officials indicated— "is punished by deprivation of freedom for a term of up to 5 years."

7. Add Article 184-1 with the following content to the Code:

"Article 184-1. Divulging Information on Security Measures Taken in Relation to a Judge or Official of a Law Enforcement or Control Organ and Their Close Relatives

"Divulging information on security measures taken in relation to a judge, procurator, investigator, agent of the court, person conducting an inquiry, official of a law enforcement or control organ, or associate of a federal organ of state power in connection with official duty, or in relation to a people's assessor or juror in connection with their participation in administering justice, or in relation to their close relatives or other persons whose life and health are infringed upon in an effort to hinder the lawful activity of the official indicated, if it is done by a person to whom this information was entrusted or who found it out through service or work— "is punished by deprivation of freedom for a term of up to 1 year, or by forced labor for a term of up to 2 years, or by a fine of up to 20 times the minimum labor payment.

"Those same actions, if they led to people's death or other grave consequences,— "are punished by deprivation of freedom for a term of up to 5 years.

"Divulging information on security measures taken in relation to the persons enumerated in the first part of the present Article by a person against whom the indicated measures are implemented, if it leads to grave consequences for other persons,— "is punished by deprivation of freedom for a term of up to 3 years."

8. In Article 193:

in the first part, reword the sanction as follows:

"is punished by deprivation of freedom for a term of up to 3 years or by forced labor for a term of up to 2 years";

in the second part, reword the sanction as follows:

"is punished by deprivation of freedom for a term of up to 5 years."

9. In the first part of Article 218, reword the sanction as follows:

"are punished by deprivation of freedom for a term of from 3 to 8 years."

Article 2

Make the following additions to the RSFSR Criminal Procedure Code (VEDOMOSTI VERKHOVNOGO SOVETA RSFSR, No 40, 1960, Article 592; No 50, 1965, Article 1,243; No 35, 1966, Article 946; No 38, 1966, Article 1,039; No 22, 1970, Article 442; No 51, 1972, Article 1,207; No 16, 1973, Article 353; No 29, 1974, articles 781 and 782; No 33, 1975, Article 699; No 15, 1978, Article 410; No 20, 1980, Article 536; No 5, 1984, Article 168; No 5, 1985, Article 163; No 40, 1985, Article 1,398; No 23, 1986, Article 638; No 27, 1987, Article 961; No 36, 1987, Article 1,295; No 43, 1987, Article 1,501; No 14, 1988, articles 396 and 397; No 33, 1988, Article 1,061; No 48, 1988, Article 1,529; No 16, 1989, Article 397; No 28, 1989, Article 739; and No 37, 1989, Article 1,074; VEDOMOSTI SYEZDA NARODNYKH DEPUTATOV RSFSR I VERKHOVNOGO SOVETA RSFSR, No 15, 1991, Article 494; VEDOMOSTI SYEZDA NARODNYKH DEPUTATOV ROSSIYSKOY FEDERATSII I VERKHOVNOGO SOVETA ROSSIYSKOY FEDERATSII, No 15, 1991, Article 494; VEDOMOSTI SYEZDA NARODNYKH DEPUTATOV ROSSIYSKOY FEDERATSII I VERKHOVNOGO SOVETA ROSSIYSKOY FEDERATSII, No 17, 1992, Article 894; No 33, 1992, Article 1,912; No 3, 1993, Article 97; No 22, 1993, Article 789; and No 32, 1993, Article 1,231; SOBRANIYE ZAKONODATELSTVA ROSSIYSKOY FEDERATSII, No 10, 1994, Article 1,109; and ROSSIYSKAYA GAZETA, 20 August 1994):

add the numbers "184-1" after the numbers "170-180" in the third part of Article 128.

Article 3

The present Federal Law goes into force after 10 days have elapsed from the day of its official publication.

President of the Russian Federation, B. Yeltsin
Moscow, the Kremlin 24 April 1995 No 61-FZ

***Banking Community Concerned Over Business Destabilization**

954E0917A Moscow MOSKOVSKAYA PRAVDA
in Russian 27 Apr 95 p 2

[Interview with Sergey Yefimovich Yegorov, president of the Association of Russian Banks, conducted by T. Pomelova, under the rubric "Money and Politics": "Bankers Do Not Play at Parties"]

[FBIS Translated Text] Banks, which used to be considered a relatively solid sphere of the Russian economy, encountered a surprising and very serious problem a few months ago: attempts to compromise them made by influential political forces. These actions immediately provoked a fierce reaction in society and the press. But, despite the numerous commentaries, hypotheses, and promises made by the authorities to straighten things out, the situation has not been cleared up yet. We asked the president of the Association of Russian Banks, Sergey Yegorov, to give his assessment of what happened and to answer other questions.

[Pomelova] Sergey Yefimovich, we recently witnessed serious provocations against Russian commercial banks—first an "attack" on Most-Bank, then exposes in the governmental newspaper regarding the Stolichnyy bank. Who profits from destabilizing the banking sphere, where conditions directly influence the situation in the Russian economy? Besides, it is obvious that the well thought-out blow was not intended for banks alone.

[Yegorov] The struggle for power is a serious matter which cannot always be explained from the standpoint of elementary logic. It is sometimes difficult to even imagine what forms this struggle may take. But I cannot permit myself to think that the provocations mentioned could prove to profit the government or the president in any way. Especially since the president announced that these events were a complete surprise even to him.

But the fact remains that the attack on Most-Bank occurred, an illegal attack, flagrant and formidable (and not only for Most-Bank but for all entrepreneurial structures as well). Personally I cannot understand the logic of those who planned and carried out this action, since subsequently the bank's leadership was given no documents illuminating the reasons for the attack. We can only form hypotheses.

I repeat that the precedent rocked the entire "entrepreneurial community." This situation also alarmed the As-

sociation, needless to say, and the banking community announced its attitude toward the event which clearly does not help stabilize our society as a whole or develop the market economy in particular. As for the articles in ROSSIYSKAYA GAZETA directed against the Stolichnyy bank, they must be considered a deliberate campaign against all Russian entrepreneurial structures rather than just against a particular bank.

As a banking specialist by both education and nature of my activities, I can say that the documents which the authors of the articles use as a basis and their "logical conclusions" are so biased and naive that a professional can merely shrug his shoulders helplessly. But at the same time, these methods make it possible to cunningly incline (and even stir up) public opinion against commercial structures and against people involved in business.

Incidentally, the way these articles are structured is interesting: first the "compromising material" is laid out, and only at the end is it mentioned very briefly that Most-Bank appealed to the arbitration court, which reached some decision. But the court did not reach "some" decision; it declared the bank was 95 percent correct. So why was the whole enormous article written? The question is a rhetorical one.

A similar situation took shape with Stolichnyy. "Exposes" began to appear in the press back 3 years ago. All these materials were immediately submitted to the Ministry of Internal Affairs and were thoroughly reviewed by the Central Bank of Russia. And it was precisely then, after a careful analysis, that the Central Bank came to the conclusion that Stolichnyy should be issued a license. No criminal actions were discovered in its activity. Now the story is being repeated.

The most banal rumors are used as an instrument to skillfully manipulate public opinion. Thus, a notice appeared recently in one of the newspapers that the president of Stolichnyy, Mr. Smolenskiy, was supposedly arrested in Austria. I found out about this notice several hours after the issue was printed. Naturally I called the bank. There I was told that Mr. Smolenskiy was in Moscow and involved in routine affairs. So why were unverified, false rumors published in a popular newspaper? Is the point perhaps merely to incite a scandal? In my opinion it is all much more complicated.

I want to emphasize that the Association of Russian Banks certainly does not intend to take banks and bankers who in some way or another violate the law under its protection. But all accusations must be proven and confirmed by court decisions. Recently, at our own initiative we expelled from our ranks a Nizhniy Novgorod bank which had violated the ethical principles

which the Association's members are required to follow. It is advantageous for entrepreneurs, including bankers, to be honest and ensure that their ranks are pure, if only from the pragmatic standpoint.

[Pomelova] What protective measures do bankers intend to take? How effective are they and in your opinion can they be?

[Yegorov] We are discussing our tactics. And undoubtedly we will react to each of the cases mentioned. Denunciations are a proven tactic of the 1930s, but we do not wish to repeat history.

As for the question of how effective our resistance is, [as the Chukovskiy tale says] "This is heavy work, pulling a hippopotamus out of the swamp." The banks themselves must take ROSSIYSKAYA GAZETA to court; what to do in each particular case is their own business. But the Association will undoubtedly respond appropriately within the framework of the law to attempts to manipulate public opinion.

[Pomelova] So bankers are prepared to protect themselves. Don't they require the help of influential political forces in doing so? Aren't they planning to create their own political organization and party?

[Yegorov] I already stated that the banking community will not participate either in creating any of its own political organizations or joining any parties. For us our professional business is most important. But on the other hand, this does not mean that we will watch absolutely all events which occur in the country "with an outsider's eye." If, for example, fascism goes on the attack, we will try to use all the forces we have at our disposal to fight it.

But presently we are not deviating from the basic principle: those political movements which support creating a socially oriented market economy (and hence a developed banking system) and a law-governed civil state are acceptable to bankers.

[Pomelova] To return to the fairly complex interrelations of bankers and the state, we must certainly touch upon another problem. As is well known, foreign banks are showing interest in Russia today. The conditions in which they are beginning to work in our country can be considered preferential. Meanwhile Russian banks which open branches in foreign countries are not given such a warm reception. Will "equality" be achieved on this issue?

[Yegorov] Such a problem certainly exists. What is the position of Russian bankers? On the one hand, we unequivocally support foreign capital vigorously investing in the Russian economy. And as far as

possible, we will promote that. But on the other hand, the banking system plays a special role in the state: whoever controls this instrument "calls the tune." So every state is very careful in creating a banking system, making certain that this system is not pressured by forces which do not express the country's national interests.

In short, this is our position: foreign banks must operate in Russia, but strict "rules of the game" are needed at this time. The explanation for this is that Russia's banking system is still just taking shape and it is not yet ready for a brutal competitive struggle. During the 5 years of their existence, banks have simply not had time to get on their feet and earn enough capital. Our country, if I may say so, has little money, not all banking cadres have good professional training, and material support also leaves much to be desired.

Consequently, we must temporarily limit the presence of foreign capital to a certain amount. And now the Central Bank has set an upper limit at 12 percent. So this aspect of the issue has been regulated. But we are not setting the goal of cutting ourselves off from the world banking community. On the contrary, we are striving to join it in time, possess contemporary banking technologies, and talk with Western bankers in the same language. It is interesting that foreign banks have recognized the benevolent attitude toward them in Russia and have joined the Association of Russian Banks. We now have five of them as members, and we are working with them as we do with all the others.

But, unfortunately, not all countries are opening the doors wide to Russian banks. We must still achieve parity.

[Pomelova] What accounts for this cool attitude? Fear of competition? But after all you mentioned that the Russian banking system is still only taking shape.

[Yegorov] But even so a potential competitor is a competitor too. On the other hand, civilized countries are afraid that criminal capital from Russia will penetrate them. But no one is insisting that all Russian banks indiscriminately be allowed to open offices or branches in the West. Each particular situation must be examined. If a bank is respectable and its reputation is unquestioned, it would be fair to give that bank the opportunity to work outside Russia's borders under the same conditions as other banking structures.

We hope that we will achieve a fairer attitude toward ourselves abroad. Thus, an office of the Association of Russian Banks has already been opened in London, which is a world financial center; this office will begin

to provide all possible kinds of practical help to our banks working abroad and to their clients.

[Pomelova] Some theoretical economists have recently been expressing the fear that if the government's plan to lower the level of inflation to 1 percent a month by the end of the year is realized, the Russian financial system will collapse. They say that then banks would be forced to sell hard currency reserves in order to fulfill their ruble obligations. And since the exchange rate of the dollar will not rise, bankruptcy is inevitable. What do you think of such a pessimistic point of view?

[Yegorov] I categorically disagree with it. If it were true, the entire world banking system would have collapsed long ago. It is another matter that sometimes high inflation allows banks to earn good profits. And that is by no means to be condemned, since those are the laws of a market economy. But fairly often banks do lose money because of the high level of inflation.

As for the Russian situation, we do not have so very many banks with a license to work with hard currency; they include only about 200 of the 2,500 banks which exist. Most of the banks (especially peripheral ones whose role it is difficult to exaggerate, since they service practically the entire economy) are not involved in hard currency transactions. Consequently, "inflation earnings" are not at all relevant to them. On the other hand, banks which work with hard currency will not suffer either and will not begin to sell their capital—for the most part they rely not on their own money but on the temporarily free capital (including hard currency) of the population, enterprises, firms, and other financial institutions. Banks will merely have to adjust investment policy slightly.

I want to emphasize once again that banks do not earn profits on hard currency transactions alone. Indeed, they are above all credit institutions, and credit transactions supply a large part of their profits, up to 80 percent. Other services account for the other 20 percent. Incidentally, a bank's maturity is in fact defined by the quality of these services. World practice shows that solid banks are able to offer up to 300 types of services to a client!

There used to be no more than 10 in our country (for the most part they included those same credit transactions, account settlements, and work with cash money)—the socialist economy did not require anything more. Now the banking system is developing in accordance with the new economic reality and the largest banks provide more than 100 types of services to their clients. In doing so they try to constantly raise their own potential. For a bank's task is to create the most convenient conditions for the client, who is also the source of profits.

[Pomelova] Sergey Yefimovich, recently the most varied publications have begun to publish ratings of commercial banks. As a rule, the data of these ratings differ substantially. Is there any sense in trusting their evaluations then? Can we say that there are ratings that are "bought," or done on order?

[Yegorov] This question disturbs us. What is world practice like? Bank ratings abroad are compiled by independent research centers. National banking associations, ours included, are not involved in ratings so as not to be accused of lack of objectivity and protectionism of "favorites." But we understand very well how important it is to society to have the most trustworthy information on bank reliability and liquidity. So recently the Association along with Russian research centers specializing in bank ratings held a conference where an understanding was reached on measures to help make them better qualified and more objective.

As for your direct question regarding "bought" ratings, I do not have specific facts. If any mass information media do resort to this, you understand very well that we would not be told of it. But, needless to say, such manipulations are unacceptable from both an ethical and a professional point of view.

***Commercial Banks To Pay More Toward Credit Reserve**

954E0910A Moscow KOMMERSANT in Russian
25 Apr 95 No 15, pp 12-14

[Article by Nikita Kirichenko: "Velvet Nationalization of Financial Capital: New Reserve Rules Force Commercial Banks To Feel Like They Did on 'Black Tuesday.' And Even Worse"]

[FBIS Translated Text]

Profit Is a Strange Thing: It Is There, and Suddenly It Is Gone

The Association of Russian Banks held a news conference last Wednesday devoted to an extremely urgent question—the publication of Supplement No. 2 to the "Statute on the Procedure for Forming a Fund of Compulsory Reserves of Commercial Banks and Credit Institutions in the Central Bank of the Russian Federation." It was submitted to the banks on 14 April, and on 18 April Central Bank telegram No. 50-95, which supplemented Supplement No. 2, was transmitted.

[begin boxed item] Russian Central Bank, Government Telegram No. 50-95, 18 April 1995

In accordance with a decision of the Board of Directors of the Bank of Russia, beginning regulation on 1

May 1995, the following norms of allocations for the compulsory reserve fund are being established: for demand accounts and fixed period obligations of a commercial bank up to 30 days—20 percent, for fixed period obligations of more than 30 days up to 90 days—14 percent, for higher than 90 days—10 percent, and for resources in foreign currency accounts—1.5 percent...

[Signed] Paramonova [end boxed item]

These additions are such that in the course of the news conference, Russian bankers lost their characteristic restraint. Our KOMMERSANT correspondent got the impression that even the "Black Tuesday" of 11 October 1994 and the wave of accusations directed at the banking community it caused did not bring about such a resolute mood among Russian bankers.

The Central Bank took no pains publicly in any way to justify the appearance of the new rules, according to which absolutely all accounts, including hard currency accounts, are now subject to the establishment of reserves. It is possible that the Central Bank had in mind that the additional reserves were being introduced to increase reliability and this, it said, should be clear in any case. However, the Central Bank did not express its opinion regarding how such a measure will affect the condition of the banks. So the banks themselves conducted studies unambiguously showing that the consequences are close to catastrophic. In a literal sense the banks could be heard groaning: "This was not just the last straw that exhausted our patience, but the whole bale," declared Garegin Tosunyan, president of Tekhnobank.

In the opinion of some financiers, putting Supplement No. 2 into effect will make 1 May, when the supplement goes into effect, the day "a Buchenwald for banks" is established. As will be shown, the new rules are in fact of a destructive nature for the banking system as a whole and therefore cannot in any way increase its reliability. That is, in this case the means have come into obvious conflict with the ends.

Speaking at the meeting with journalists, the bankers repeatedly emphasized that the significant immobilization of banks' profits will have a catastrophic effect on their clients and on the entire economy of the country as a whole.

We will remind you that Supplement No. 2, which was published by the Central Bank, is a development of the January decision of the Central Bank on the establishment of compulsory reserves in the amount of 2 percent of foreign currency accounts. At that time the commercial banks received it with muffled dissatisfaction; however, they did not begin to make

public protests. After the introduction of the reserve for hard currency, the Association of Russian Banks (ARB) sent a reasoned protest to the Central Bank of Russia, the State Duma, and the prime minister of the country, and awaited an answer. It was not slow in appearing in the form of Supplement No. 2, according to which not only the current and settlement accounts of enterprises additionally came under the reserve system (as the banks understood at first), but also the deposit accounts of legal entities, the accounts of nonresidents, and, here is complete confusion, "LORO" accounts (passive correspondent accounts), which is not a practice in any country.

According to the estimate of Sergey Yegorov, president of the ARB, further expansion of the reserve base will result in \$3 billion in aggregate losses for Russian banks.

The official statement of the ARB reports that the obligatory allocation to the compulsory reserve fund for foreign currency accounts has already "reduced the resources of commercial banks by 2 trillion rubles [R]." The cost of introducing new adjustments, according to ARB calculations, will amount to R25 trillion, which means practically a doubling of the compulsory reserve fund of commercial banks for correspondent accounts in the Central Bank.

In a speech, ARB President Sergey Yegorov mildly called the toughening of the reserve fund of the Central Bank a poorly reasoned measure. "The impression is created that the Central Bank of Russia did not consider all the consequences of its introduction for commercial banks, but our miscalculations were crowned by a sad result," he said. According to Sergey Yegorov's testimony, the consolidated profit balance of Russian commercial banks for the last year amounted to \$5 billion (or R25 trillion), which even so is \$1.3 billion less than the 1993 level. The net profit of the banks, taking into account the payment of taxes, is calculated at \$2 billion (or R10 trillion). In the words of the ARB president, the further expansion of the hard currency reserve base in the end will come to approximately \$5 billion, thus \$3 billion in financial losses for Russian banks.

The specific feature of the hard currency reserve, it was noted at the meeting, is that it is not hard at all, inasmuch as the fund is formed in rubles (apparently this is associated with the features of the accounting system of the Central Bank). That is, in order to establish the aforementioned reserves, given a shortage of ruble resources, commercial banks must sell hard currency on the market. Then, taking into account a drop in the ruble rate, they must right away replenish the reserves,

because the instructions of the Central Bank provide no mechanism of indexation of reserves (what results is a kind of plain and simple tax on a tax). It is not difficult to guess what kind of changes await the markets. A one-time dumping of hard currency, if it does not lower the dollar rate of exchange, then it will rein it in. The rate of exchange imbalance will be reflected immediately in the effectiveness of export-import operations. In the words of Vladimir Vinogradov, president of Inkombank, such an arrangement "will lead to a crash of the oil and gas complex."

On his part, Aleksandr Malshev, president of the Investkredit interbank association (which has 50 commercial bank members from different regions of Russia), admitted that the balance in the settlement and current accounts of Investkredit clients amounts to R2.5 trillion and that R4.5 trillion will be required to establish the reserves. To implement the requirements of the reserve system, banks will have to buy resources on the interbank market and inevitably increase the interest rates of the MBK [interbank credit] (according to the calculations of specialists, by a minimum of 20 percent). Moreover, it is quite probable that in some situations banks will be unable to pay the accounts of enterprises, and in this way nonpayments in the national economy will be supplemented by a chain of bank nonpayments, which could result in a series of bankruptcies and engender the "domino effect" so often cited by representatives of the Central Bank as a last argument. Aleksandr Malyshev also expressed the fear that a novation of the Central Bank is capable of ruining the average regional banks, which will have a negative effect on the economy of the regions. "The smallest bank in our association—the Adygea—is considered a leader on the republic scale," the banker said. Oleg Mozhayskov, an adviser to the board of the International Moscow Bank [MMB], pointed to the fact that commercial banks are deprived of the opportunity to evaluate the economic feasibility of toughening the norm for establishing reserves (if one exists as such), inasmuch as in the last half year the Central Bank of Russia has not been publishing information on the money supply. Simultaneously, he doubted the economic justification for the recent decisions of the Bank of Russia, justly assuming that they force banks at least partially to shift the costs onto the shoulders of their clients. In the words of the MMB adviser, his bank will have to find an additional \$22-23 million to form a reserve. The bank's profit will be reduced by approximately 50 percent. At the same time, in the opinion of Oleg Mozhayskov, the measures undertaken by the Central Bank will not favorably influence a reduction in the level of inflation—to a significant degree its rates are predetermined by redundant costs in the turnover of enterprises (with expensive turnover cred-

its). But the Bank of Russia is right now whipping up the credit costs of enterprises, by which it is stimulating inflation. Thus the policy of the Central Bank of Russia, Oleg Mozhayskov thinks, "demonstrates an oppressive continuity of Gaydar traditions, and the population of the country will end up being robbed a second time."

Natalya Rayevskaya, president of Avtobank, supported the specialist who for many years worked in currency dealings of the USSR State Bank. "I would not want the public to have the impression that commercial banks are only defending their own selfish interests. The banks will be forced to lower payment rates on deposits, including for physical persons, up to 20-30 percent annually." (Dividends to shareholders will have to be forgotten completely.) Such a failure in the profitability of people's savings, the banker is convinced, is fraught with an undermining of the people's trust, and together with banking nonpayments, spectacularly affects citizens' wages and is capable of engendering an increase in social tension. "Is this necessary just before the presidential elections, and is this politically skillful?"—the financier posed these questions rhetorically.

[begin boxed item] Naturally the new reserve conditions will be hard for different banks in different ways. The specific sum of allocations to the reserve will depend directly on the structure of a bank's liability portfolio. It can be claimed unambiguously that the largest absolute increase of reserves will be required from banks which in the main have hard currency liabilities and hard currency profit; that is, principally from banks that serve members in foreign economic activity, especially exporters, inasmuch as the specific nature of their service requires the presence of large debt balances in correspondent accounts of foreign banks. However, we will mention that an indulgence appeared recently for banks which in the main make hard currency profit—taxation of profit in the calculation of hard currency differences. To a relatively large degree banks that work in the short-term deposit market will suffer, inasmuch as tougher reserve norms have been established for them, as will banks that have a large portfolio of short-term deposits.

Banks that gamble on the receipt not so much of "marginal" (extensive) profits as on "dealing" profits from the mobile management of resources will cope relatively more easily with the new disaster. [end boxed item]

In attempting to mobilize tens of trillions of rubles to provide a reserve system, the banks will be transformed from net creditors into net borrowers. The retrospective of numerous government appeals to the banks on

investing in the national economy is perceived as rather amusing in this connection. Indeed, also with foreign investments, bearing in mind that the dissemination of the "special tax" on nonresident accounts, it appears, will have to be put off somewhat.

Specialists believe that the depletion of the treasuries of commercial banks will lead to their inability to establish internal (their own) reserves against questionable debts and reserves subject to the depreciation of securities at a time when the level of overdue debts in the banking system is 20-25 percent.

The bankers accentuated their attention on the "budgetary" aspects of the problem. A lowering of bank profits will correspondingly cause a reduction in the amount of tax revenues, which, according to the assertion of the president of Inkombank, are reaching 40 percent of the volume of bank profits and 15-30 percent of the aggregate income of the federal budget (the latter figure is cited taking into account shortages regarding other articles.) The fate of the 1995 GKO [state short-term bond] program which, as is known, proposed large-scale purchase of these state securities by commercial banks, resulted in the complete bewilderment of the bankers.

To crown it all, replying to the question of how the new reserve procedure will affect the fate of the banking consortium initiated by Onexim-bank, Vladimir Vinogradov said that when the rules go into effect the consortium idea will have to be forgotten, inasmuch as the banks will also not have the money for credits for the government: "Well, the upshot is that about \$100 million will be accumulated—but this is not significant."

The bankers who were at the meeting gave assurances in unison that they were not against the idea itself of a reserve, which is professed by national banks in the whole world, but they insist on a prudent approach by the Central Bank of Russia to changes in the policy on reserves, in particular, the policy on the establishment of allocation norms. A number of commercial banks called on the Bank of Russia either to return to the former reserve procedure, or, in introducing a new one, to lower the size of the allocations for reserves—both hard currency and ruble. It seemed that the Central Bank of Russia heard the appeal of its subjects. That very same day Tatyana Paramonova, acting chairman of the Central Bank of Russia, signed a telegram on lowering the size of allocations for ruble accounts from 22 to 20 percent, and for foreign currency accounts—from 2 to 1.5 percent. Of course, the "rollback" of the Central Bank of Russia from its position was assessed by the banks as a demonstration of good will and not as an

effort to fundamentally resolve a troublesome question. "This essentially does not change anything," he believes.

The Big Policy of Big Reserves

Many reproaches were directed at the Central Bank at the ARB news conference. It was said that the Central Bank management completely refused to meet and consult with the bankers. Boris Sergeyev, a member of the board of Tokobank, expressed surprise at the fact that just after the signing of Supplement No. 2, Minister of Economics Yevgeniy Yasin expressed complete unawareness of the latest initiatives of the Central Bank at a meeting with bankers.

The opinion that the Central Bank individually made the decision on removing a substantial part of banks' resources is perhaps not entirely true: After all, the bankers themselves indicated that a letter which set forth their position was sent to the prime minister and the Central Bank. It was not lost at both addresses at the same time.

The main question remains open—for what purpose was it necessary to freeze tens of trillions of rubles? It is unlikely that anyone will give a clear answer, and the experts can only ponder. Bearing in mind that IMF specialists insisted on reserves for all accounts, it can be assumed that this was an attempt to reduce inflation in the country to a desired magnitude according to a Fund method. Possibly, the money was needed to cover the "military-cash" expenditures on Chechnya... However, one would like to believe that this war is not turning into a world war and so does not require an increase in expenditures in geometric progression.

Apart from anything else, it is perfectly obvious from all the aforementioned how dangerous the experiment of such an "attraction of resources" is for the efficiency of the banking system of Russia and the viability of national industry. In order to take such a step, the authorities should have had very weighty reasons. But what objectives are above bank profits? The question is superfluous. For Russia the answer is traditional—political objectives. There is no denying that a splendid source has been found which is able in any event to serve the purposes of financing a preelection campaign. And—this is brilliant—without increasing the money supply in circulation and without breaking the obligations to the IMF.

Another variant is also possible. It is quite natural to assume that the negotiations with the bank consortium, which proposed a credit of R9.5 trillion to the government, could continue right up to the elections. The progress of these negotiations, whatever it might be, would evoke a wave of criticism of the government in

the preelection period both on the part of opponents of the "bargain sale" of Russia and on the part of radical reformers whose hearts demand "more decisive changes." But without a consortium there are no problems and, what is fundamental, everything for the same money.

It also cannot be ruled out that the government, whose attention turned out to be attracted by the bankers themselves to the presence in large banks of R9.5 trillion of free resources, at a minimum, decided to take control of this money, and at the same time of other money—and other banks—without any consortiums and trusts. However, it seems, they overdid it...

It can also be assumed that the most powerful industrial generals in principle did not want their packages to be mentioned in connection with their possible transfer in trust to anyone whatsoever. Nevertheless: If there is no consortium, there are no problems.

In conclusion, we will note that while our assumptions are not without grounds, there is also no reason to share the optimism of some observers who predict that the Central Bank will retract its position under the pressure of criticism.

P.S. Ilich once asked the little boy who was crying bitterly:

"Why are you crying, little boy?"

"Hooligans took my kopek from me."

"Here is a kopek for you, little boy."

The little boy began to cry even more. Ilich asked:

"Why are you crying now, little boy?"

"If the hooligans had not taken away my kopek, I would now have two kopeks!"

Ilich got angry. He took the kopek back from the stupid little boy. And he took his cap. And his mittens.

***Enterprises Fail To Use Credit Allotted by West**

954E0908A Moscow KOMMERSANT-DAILY
in Russian 26 Apr 95 p 9

[Article by Galina Pechilina: "Tatneft May Reject Credit; Use of Western Credit Is Becoming an Expensive Pleasure"]

[FBIS Translated Text] The economic situation in Russia is shaping up in such a way that Western credits already allotted to enterprises cannot be used. An example of this is the rehabilitation credit for \$2 billion granted in September 1994 to several Russian oil-producing enterprises by the French Societe Generale Bank and the American Citibank under a guarantee of the U.S. Export-Import Bank, and which has not been called for to date, because of the oilmen's lack of confidence in the reality of returning the resources.

Eduard Akopdzhanov, the deputy general director of the Tatneft joint-stock company, observed with regret that if the Russian Government in the near future does not develop clear rules of the game, it is unlikely that the oilmen of Tatarstan (one of the credit recipients) will be able to take advantage of the granted resources.

In receiving credit in the amount of \$269.9 million, the Tatneft joint-stock company was counting on the assistance of equipment purchased in the United States to restore about 2,700 wells. These wells were supposed to give an additional 12.4 million tonnes of oil in the course of seven years.

However, the credit that is so necessary is still not being used. The reason, in the words of Eduard Akopdzhanov, is the oilmen's lack of confidence that the debt can be repaid in time in accordance with all of the contract conditions. The rules of the game change too often in Russia. In any case, they have changed substantially from the moment of the conclusion of the credit agreement.

It became obvious as early as the end of last year that because of new export duties, the hard currency gain from each tonne of oil in 1995 in comparison with 1994 is being reduced by a factor of 3-4. The year 1995 introduced new adjustments. The most serious one of them is associated with the ratio of export and domestic deliveries. If the oilmen have to operate according to the new rules, which propose the shipment for export of 30-35 percent of the extracted oil, there will be nowhere from which to get the resources to repay the credit. According to preliminary calculations, of the 12.4 million tonnes of oil extracted from revived wells, it was proposed to export 7 million tonnes (approximately 60 percent), and to use the gained resources for repayment of the credit. Based on the new norms, only 4 million tonnes can be exported, which is obviously insufficient to cover the debt. The sharp increase in the excise tax on oil is also not favorable. If an excise tax at an average branch level (and perhaps higher) is established for the Tatneft joint-stock company, then the prospects for the use of credits will prove unrealizable, Akopdzhanov believes.

Naturally, the payment of interest to the French bank for the non-use of credit is suspended in this situation. There is information that the bank is inclined to "enter into a situation" and not collect this interest for the time being. But it cannot continue this indefinitely.

According to KOMMERSANT-DAILY information, the other borrowers (the joint-stock companies Chernogorneft, Permneft, and Nizhnevartovskneftgaz) are also biding their time. In any case, their representatives declared unambiguously at a March conference at

the Ministry of Economics of the Russian Federation that, given the existing tax system, this credit is proving to be unprofitable.

***Holding Group To Attract Foreign Investment Projected**

954ED890 Moscow KOMMERSANT in Russian
18 Apr 95 No 14, p 21

[Article by Nikita Kirichenko under "Topical Subject/Banks" rubric: "In Necessariis Unitas: Authorities Prepared To Register Bank Superclub That London and Paris Clubs May Agree To Do Business With"]

[FBIS Translated Text] Our government is to be congratulated. On 11 April, the directors of the International Monetary Fund made the official and irrevocable decision to grant Russia \$6.5 billion worth of credit this year.

True, as Russian Economy Minister Yevgeniy Yasin informed a KOMMERSANT correspondent, we shouldn't expect delivery of the first part before May. In other words, the IMF credit will not arrive in time for either the planting season or the beginning of the seasonal increase in inflation. It is good that they have at least given us something; everyone knows that one shouldn't look a gift horse in the mouth. However, euphoria surrounding the IMF's kindness has, in a way, pushed a much more urgent problem into the background: the problem of Russia's foreign debt as a whole and its restructuring and servicing.

At the same time, the current state of Russian indebtedness is quite remarkable. The total sum of Russian debts, based on unofficial information made public at hearings, has reached \$112.7 billion. According to official data, the former USSR's indebtedness, which Russia has taken upon itself, amounts to \$80 billion (Russia owes \$50 billion to the Paris Club of creditor states; the second most important lender is the London Club of private banks at \$24 billion; and finally, the Russian Government debt to private firms is \$6 billion). Also, Russia's own debts have appeared.

Honestly speaking, one way or another Russia should have paid \$30-40 billion to creditors in 1995, but it did not pay; negotiations for deferments and debt reconstruction are going forth all the time. If we will recall, in 1993 Russia managed, mainly through the efforts of Aleksandr Shokhin, to effect an intricate operation: of the required \$40 billion, we paid (by mutual agreement) only \$2 billion, deferring the rest. At closed Duma hearings on the foreign debt and on the 1995 budget, Oleg Davydov, the new vice premier, proposed paying off the debts to private firms first and delaying resolution of the problem of indebtedness to

the Paris and London clubs to a later date, but this is not a real solution, either. This kind of approach, instead of decreasing debt payments, could lead to Russia's being forced to pay the debt under less advantageous conditions in the end, as hopes to avoid substantial payments to official creditors are not fated to come true. After all, they would all like to take a place (for as much as they can) on the IMF's "gift horse," but they won't be able to gallop very far.

It seems as if a situation has developed where the authorities have no other course of action left besides proposing to their creditors a contractor that would bring back confidence in the Russian side at the foreign debt negotiations. As the KOMMERSANT editorial staff has discovered, a draft decree has been born in the womb of the presidential apparatus "On the Creation of a Russian Financial-Banking Group for the Attraction of Foreign Investments, Development of the Finance Market, Promotion of Export, and Realization of Regional Programs." The draft provides (in accordance with the 5 December 1993 presidential decree on financial industrial groups) for the creation of a holding group which would assume the management of state debts at Rosvneshtorgbank [Russian Foreign Trade Bank], Vneshekonombank [Foreign Economic Bank], the Russian Reconstruction and Development Bank, the Russian Export-Import Bank, former Soviet banks abroad—Mosnarbank [Moscow People's Bank] (London, with a division in Singapore), Aerobank (Paris), Donaubank (Vienna), East-West United Bank (Luxembourg), Ost-West Handelsbank (Frankfurt), as well as debts at international (former CEMA) banks—an investment bank, and an economic cooperation bank.

The holding group's trust should include 35 percent of the stock from a new bank that still remains to be created "with the goal of effectively utilizing regional securities possibilities in order to attract foreign and domestic credits"—a specialized federal bank for regional support and development. Federation subjects are being considered as possibilities for other stock-holders, along with the state, in the new bank.

The creation of the holding group for attracting money from abroad has been entrusted, naturally, to Aleksandr Shokhin, the avowed master of debt restructuring. Joining the banks together in the holding group, in our opinion, should serve yet another purpose: in using the USSR VEB [Foreign Economic Bank] trademark, which the former union's creditors respect if for no other reason than that there was no other bank guarantor for the union's debts, to attempt to arrange, within the holding group, a joint examination of its debts. The unreliable credits granted to the VEB hang like a rock on the balances of the Soviet foreign banks, making it difficult

to meet the standards for liquidity in their countries of residence and, accordingly, undermining potential credit donors' confidence in them.

For now, it is difficult to say whether or not the West's confidence in Russia will rise in response to the addition-subtraction conducted with Eastern refinement, especially since Russian commercial banks may not support the government's arithmetic. The draft decree also stipulates several advantages for participants in the bank holding group; they are charged with the duty of privatizing the bank packets owned by the state. At first glance, this doesn't seem so bad.

The banks, however, have some other reasons to argue with the authorities concerning the prospects for further developing the banking system. As we noted in the last edition (see pages 14-16), the banks that are members of the holding group lose a fair amount of independence, while the banks outside the holding group acquire a most serious competitor, both on the foreign and the domestic markets.

However, the main point is the following. The creation of a superbank (even with sanation of the balance, over the course of the joint examination) will not lessen the total risk in the banking system. After all, if the superbank is under the wise leadership of a government that loves to and is good at crawling into debt and expands its operations into the field of attracting Western credits in the spirit of the USSR VEB, then sooner or later a similar fate will overtake the superbank. Then, all the Russian banks having correspondence relationships with the holding group's member banks will be forced to experience the "restructuring" abilities of Aleksandr Shokhin. At the same time, they will be able to become the happy owners of several tranches of the newest tools on the money market. We will call them, for example, the "VEB IIs." Incidentally, it would be appropriate here to pose this question, as well: Of the new property owners (after privatization of the state packet at the USSR VEB), who will be paying off the four remaining tranches of "VEB II?"

In connection with this, KOMMERSANT's experts are inclined to regard the latest initiatives of the largest Russian banks toward offering large-scale credits to the government as a relatively expressive attempt to distract the authorities from the superbank game.

***Decree Creates Commission on Russia-OECD Cooperation**

954E0918B Moscow ROSSIYSKAYA GAZETA
in Russian 27 Apr 95 p 4

[Text of Russian Federation Government Decree No 341, dated 15 April 1995, city of Moscow, "On the

Make-Up of the Interdepartmental Commission on Questions of the Russian Federation's Interaction With the Organization for Economic Cooperation and Development"]

[FBIS Translated Text] The Russian Federation Government decrees the following:

Ratify the attached make-up of the Interdepartmental Commission on Questions of the Russian Federation's Interaction With the Organization for Economic Cooperation and Development formed by Russian Federation Government Decree No 1,366, dated 11 December 1994, "On Expanding the Russian Federation's Interaction With the Organization for Economic Cooperation and Development" (SOBRANIYE ZAKONODATELSTVA ROSSIYSKOY FEDERATSII, No 34, 1994, Article 3,605).

**Chairman of the Russian Federation Government,
V. Chernomyrdin**

Make-Up of the Interdepartmental Commission on Questions of the Russian Federation's Interaction With the Organization for Economic Cooperation and Development

Ivanov, I. S., first deputy minister of foreign affairs of the Russian Federation (chairman of the Commission)

Fonotov, A. G., first deputy minister of science and technical policy of the Russian Federation (deputy chairman of the Commission)

Fradkov, M. Ye., first deputy minister of foreign economic relations of the Russian Federation (deputy chairman of the Commission)

Khromushin, A. N., first deputy minister of social protection of the population of the Russian Federation (deputy chairman of the Commission)

Kossov, V. V., deputy minister of economics of the Russian Federation (deputy chairman of the Commission)

Averchenkov, A. A., deputy minister of protection of the environment and natural resources of the Russian Federation

Batsyn, V. K., deputy minister of education of the Russian Federation

Bednov, S. S., vice president of the Russian Federation Chamber of Commerce and Industry

Boykov, O. V., deputy chairman of the Russian Federation Supreme Arbitration Court (by agreement)

Boldin, V. N., deputy minister of communications of the Russian Federation

Vezirov, B.N., chief of the Main Administration of Science, Technology, and Conversion of Goskomoboronprom Rossii [RF State Committee for Defense Industry]

Dudkin, A.G., chief of the Administration of Hard Currency Control of Capital Transactions of the Bank of Russia

Zelenkin, V.A., chairman of the Council of the Federation Committee on Questions of Economic Reform, Ownership, and Property Relations (by agreement)

Kalin, A. A., deputy chairman of Goskomprom Rossii [RF State Committee for Industrial Policy]

Kachanov, O. Yu., deputy chairman of Goskomimushchestvo Rossii [RF State Committee for the Administration of State Property]

Korchagin, V. V., first deputy chairman of Roskominform [RF Committee on Information]

Mashinskiy, B. L., member of the State Duma Committee on Economic Policy (by agreement)

Meshcheryakov, V. I., deputy chairman of GTK Rossii [RF State Customs Committee]

Moskvina, M. V., deputy director of FSZ Rossii [RF State Employment Service]

Potapov, V. I., first deputy director of Gosnalogoslyzhba Rossii [RF State Tax Service]

Smirnov, P. S., director of the Economic Cooperation Department of MID Rossii [RF Ministry of Foreign Affairs]

Sokolov, V. L., deputy chairman of Goskomstat Rossii [RF State Statistics Committee]

Soroka, A. I., chief of the Information-Analysis Administration of Roskommetallurgiya [RF Committee on Metallurgy]

Suvorov, A. A., deputy minister of transport of the Russian Federation

Filev, A. A., director of the Department of International Finance Organizations of Minfin Rossii [RF Ministry of Finance]

Fomin, V. I., chief of the Main Administration of Foreign Relations of Minselkhozprod Rossii [RF Ministry of Agriculture and Food]

Fonareva, N. Ye., deputy chairman of GKAP Rossii [RF State Committee for Antimonopoly Policy and Support of New Economic Structures]

Khalevinskiy, I. V., deputy minister of labor of the Russian Federation

Khusnutdinov, M. Kh., Russian Federation deputy minister for cooperation with states participating in the Commonwealth of Independent States

Tsyplakov, S. S., chief of the International Cooperation Department of the Apparat of the Russian Federation Government

Shevchenko, A. M., department head of the Economic Cooperation Department of the RF Ministry of Foreign Affairs (responsible secretary of the Commission)

Wholesale Electric Power Market Efforts Detailed

954F2190A Moscow SEGODNYA in Russian
25 Apr 95 p 11

[Article by N. Gotova and P. Kuznetsov: "Unified Electric Power System of Russia Seeking Investors. RAO, Russian Joint-Stock Company, YeES, Unified Energy System, Was Unable To Reduce Regions With Surplus Energy and Regions With Shortage of Power to the Common Denominator of a Wholesale Market"]

[FBIS Translated Text] The authorized capital of RAO YeES amounts to 6,999,497,300 rubles [R]. Fifty-one and 7.9 percent of the public shares is reserved as state property for the period up to 1995; 4.5 percent is distributed by closed subscription among members of the labor collective and pensioners; 1.7 percent is distributed among the administration; 7.7 percent is distributed to the FARP [joint stock funds]; and 20 percent was sold at check auctions. According to information furnished by RAO YeES, at present around 17 percent of the company capital belongs to foreign legal bodies, among which the CS First Boston Company is the largest recorded holder.

In 1994, RAO YeES generated 858.7 billion kilowatt hours of electric power out of which 30 percent was sold on the wholesale market. Proceeds from the sale of products amounted to R5,596.7 billion, book profit was R470.8 billion, and after settling accounts with the budget the profit came to R307.1 billion. Dividends for the reporting period were set at 200 percent per share with par value of R500. Payment of revenue on the securities will take place until 1 July 1995.

Last week the RAO Unified Energy System of Russia held a press conference dedicated to results yielded by the annual shareholder meeting.

The Results

The shareholders adopted a new version of the company bylaws which brings that document into conformity with the Civil Code of the Russian Federation. It is noticeable that the owners voted to decrease the amount of

preferred stock of the Unified Energy System from 5.2 percent to 4.8 percent of the authorized capital. Supplement No 1 to the bylaws of the RAO adopted a list of representative offices and branches (departments) of the energy system which included the RAO YeES representative office in Spain with headquarters in Barcelona. The shareholders also adopted decisions of the board of directors for 1994 and the first quarter of this year for the formation of subsidiary joint-stock companies, branches, and investments by RAO YeES of Russia in other enterprises. The list of electric power stations contributed by GKI [State Committee for the Administration of State Property] of the Russian Federation as material contribution to the authorized capital of the company included three disputed hydroelectric power stations in Irkutsk Oblast which are at the disposal of the Irkutskenergo Joint-Stock Company. By the way, it is also curious that this property has already been entered in the authorized capital of the Irkutskenergo Joint-Stock Company.

The investment activity of the energy system was examined at the meeting of the RAO YeES. According to the board of directors report, the company channeled R1,160 billion in the course of 1994 into financing of capital investments at the expense of all sources. This year the main directions to be followed in the investment policy of the company stipulated a decrease in the existing shortage of electric power capacity in Transbaykal and the Far East as well as Northern Caucasus, the transmission of surplus power from energy systems of Eastern Siberia to regions of Russia experiencing a shortage, and a decrease in energy dependence of a number of regions of Russia on countries of the near abroad. The amount of investment in the current period will be defined by the board of directors of RAO with consideration of the assimilation of funds and the dynamics of prices in capital construction. It is planned to invest the largest sums in 1995 in construction of the Nizhnevarovsk and Pskov GRES [state regional electric power stations] and construction of latchkey facilities—the Irganaysk, Bureysk, and Ust-Srednekansk GES [hydroelectric power stations]. Restoration of electric power installations in Chechen Republic along with power transmission lines and substations in North Ossetia and Ingushetia will have to be carried out by the Federal Energy System on a non-reimbursable basis. Additional funds, made available from the sale of the state portion of shares at cash auctions, will be made available for investment needs.

As reported at the press conference by Anatoliy Baranovskiy, vice president of the RAO YeES, last year RAO leadership managed to adjust relations with suppliers of atomic energy who generated around 12 per-

cent of the total volume of production. A cooperation agreement was signed with the Rosenergoatom concern in December 1994.

Wholesale Electric Energy Market: Things Are Not Moving

The problem concerning organization of a wholesale electric energy and capacity market continues to be a pressing and an expanding one according to Nikolay Boyko, chief of the RAO YeES Department of Economics. Innovations in the concept can include elaboration of methods to bring enterprises of the Ministry of Railways into the wholesale market, which would also permit coordination of prices for railway transportation with fluctuations in energy tariffs while lowering expenditures on cargo shipments.

In addition to that, RAO YeES managed to avoid criticism for monopoly and speculative resale of electrical energy having rebuilt its operational activity on the wholesale market into one without profits. According to Nikolay Boyko the payments of purchasers of electrical energy on the wholesale market are passed through the "zero account" of the Central Dispatching Administration (TsDU EYeES) in the direction of the source generating the electrical energy. The electrical energy purchase tariff equals the sale tariff, while expenditures on maintenance and development of the electrical energy supply lines are included in the subscription payment.

The concept of the future Russia-wide wholesale market still involves contradictions between regional elites of the regions with an energy surplus and those with an energy shortage and the largest consumers of electrical energy. The idea of forming energy zones amalgamating well functioning energy systems with neighboring joint-stock companies experiencing energy famine is yet to be realized for quite understandable reasons: administrations of subjects of the federation with low tariffs for electrical energy do not wish to share profits with other regions through a rise in local industry tariffs.

According to Nikolay Boyko at first it was planned to transfer all metallurgical enterprises to the wholesale market with a tariff no higher than a cent per kilowatt hour. According to preliminary calculations, as a result of such reorganization tariffs for all the other Russian consumers would have to be raised by three rubles. The first positive result was obtained in Belgorod Oblast where a method is being worked out for bringing three ferrous metallurgy plants into the wholesale market. It is known however that aluminum plants in Irkutsk Oblast and Krasnoyarsk Krai have long-term contracts with regional energy systems at a price which is quite suitable. Mutual relations with local authorities became a

hindrance in the introduction of most of the enterprises of the metallurgical branch on the wholesale market. Other aluminum plants, which were not as lucky regarding generation sources as their Siberian brethren (for instance the Volgogradsk Aluminii Joint-Stock Company), cannot enter the wholesale market due to the resistance of the regional authorities which are attempting to retain large consumers in local energy joint-stock companies. In order to avoid the occurrence of social tension in subjects of the Federation, the RAO YeES considers that problems of energy-intensive consumers must be resolved exclusively with cooperation of the executive power authorities of regions and local energy systems.

It is possible to take special note of the situation in which the Sayansk Aluminum Plant found itself. In the opinion of Nikolay Boyko high rates for that enterprise, which consumes electric energy from the most profitable Sayano-Shuchensk GES in Russia, is a graphic illustration of the populist behavior of individual regional administrations which are striving to preserve the lower tariffs in literally any way for the population. Inasmuch as the Sa Aluminum Plant is the dominant source of payments for Khakasenergo Joint-Stock Company, electrical energy it has to subsidize groups of consumers receiving special tariffs. Mr. Boyko believes that the possibility that a direct agreement might be concluded between the aluminum plant and the RAO YeES subsidiary company—the Sayano-Shushensk GES—is rather small, inasmuch as the Council of Ministers of Khakassia does not welcome such initiatives by the Sa Aluminum Plant.

According to Anatoliy Baranovskiy, mobilization of investments on the exchange market, which will allow a decrease in the amount of the investment component for consumers of the products of the Federal energy system, is the priority direction to be followed in the development of RAO YeES. By the middle of the summer, together with the Bank of New York, RAO YeES is planning the issuance of first step ADR (American deposit receipts, i. e. certificates of deposit of RAO YeES shares). The presentation of securities to the underwriters will be taking place in the very near future. A limited audit is being conducted by Price Waterhouse specialists to bring financial reporting into conformity with international standards.

By comparison with other enterprises with regard to the degree of its solvency, RAO YeES at first glance appears quite good. The current cash position is not in doubt: the ratio of banking capital to short-term debt not only did not decrease, but, as it is taking place in industry as a whole, it even increased from 1.9 to 2.22 in the course of the

year, exceeding the figure of 2 required by the Administration for Banking Affairs. With a very small share of reserves and expenditures in the composition of working capital, the coefficient of financial coverage practically coincides with data on current solvency, with a large reserve surpassing the normative value 0.7-0.9.

It would appear that all is normal, but the dynamics of absolute liquidity (correlation of actual monetary funds in accounts in banks to credit indebtedness) provides an unsightly picture. In the course of the year the coefficient dropped by a factor of 10 and is now such that only 0.7 percent of the creditors can be paid off immediately. The solvency of the company is illusory; over two-thirds of the balance currency is held by debtors—that is it is highly non-liquid—under conditions created by nonpayment of assets, which creates the illusion of stability in its financial position.

Nevertheless net profit (after taxes) in the past year slightly exceeded R300 billion, i.e. R2,326 per common share. The price per share outside the stock exchange, according to data from AK & M, presently fluctuates near the R31,000 mark, which provides quite respectable capitalization of annual income in the share price (price earnings ratio equals 13).

***Duma Deputy Scores Efforts in Komi Oil Spill Aftermath**

95WN0151A Moscow LITERATURNAYA GAZETA
in Russian 26 Apr 95 No 17, p 12

[Article by Mikhail Danilov, deputy of the State Duma: "Coma"]

[FBIS Translated Text] The breaking of the oil pipeline in the Komi Republic became the largest ecological accident of last year. The Usa River is completely covered with an oil blanket on a section 21 km long (the width of the river is up to 300 meters). The offshore zone from 3 to 2,000 meters wide is polluted with a blanket of viscous oil up to 40 cm thick. The banks of the Kurya stream are completely covered with mazut. Large clusters of oil have been noted in the bays of the Kolva and Usa rivers. On the Pechora itself the 3-km bank section inspected by the fish inspectorate is polluted with oil products along the entire length and along the width of up to 1.5 meters. In this basin Russia risks losing the largest shoal of the Atlantic salmon and reserves of the most valuable whitefish. The general and as yet not finally estimated damage done to water basins, agricultural land, forests, tundra, and their flora and fauna already approximates 3 trillion rubles.

At a conference with First Deputy Prime Minister O. Soskovets at the end of last year what had happened

was defined in a sparingly mild manner: "an ecological emergency situation." Let us leave this term to the conscience of directors of the ministries and departments concerned, who gathered 3 months after the series of accidents that occurred. We will only add that even specialists from the Ministry of Emergency Situations, as well as the capital's experts from the RF Committee on Water Management, the Russian Federal Service on Hydrometeorology and Environmental Control, and the RF Committee on Fishing, before 28 October did not visit the place of the Usa tragedy. Thus, the government, not to mention the public, did not have any reliable information on what had happened in the Pechora region. As it will be explained later, the "departments concerned," nevertheless, had some information, but they were silent. On the contrary, reassuring reports both from officials and journalists were arriving in Moscow during all that time: There is nothing special, we will cope ourselves, we do not need help. There is one concern: Not to wash our dirty laundry in public and not to let in independent observers. Suddenly, like a bolt from the blue, sensational material [appeared] in THE NEW YORK TIMES and was announced at lightning speed by Western radio stations all over the world. On that day—25 October 1994—the overwhelming majority of Russians found out about the Pechora tragedy and domestic publications vied with each other in publishing in newspapers and broadcasting the most contradictory information: from several cubic meters of spilled oil (according to N. Ponomarev, former deputy director-general of the Komineft Joint-Stock Company) to 300,000 tonnes (interview with William White, U.S. deputy secretary of energy, with THE NEW YORK TIMES newspaper).

Europe's river third in high water after the Volga and the Dunay (the average water consumption is 4,100 cubic meters per second!) with an area of the catchment basin exceeding the territory of Poland or Italy was left to the mercy of oil and gas monopolies. The strongest of them—the Komineft Joint-Stock Company—in the last 1 and 1/2 years has shown scorn for ecological public opinion and Russian legislation on nature protection, which caused an information explosion on the planet.

Usinsk: Ecological Disaster or Extraordinary Event on a Regional Scale?

In order to clarify the situation, I, as deputy chairman of the State Duma Special Commission on Clarification of the Circumstances and Scale of the Ecological Disaster in the Pechora Basin, and A.N. Chilingarov, deputy from the Nenetskiy Okrug, made an inquiry to the Ministry of Emergency Situations, the Ministry of Environmental Protection and Natural Resources, and

the Ministry of Fuel and Energy: What happened near Usinsk? At the plenary session of the State Duma on 28 October 1994 a statement signed by Yu. Vorobyev, RF deputy minister of emergency situations, was distributed to deputies: "In the Usinsk region at the Vozey-main structures oil pipeline operated for 20 years on 12 August several pipeline breaks occurred, through which 14,033 tonnes of oil flowed out." (This precision—up to 3 tonnes—was especially "touching," whereas the error of instrument units for recording transported oil does not make it possible to record losses of hundreds and even thousands of tonnes!—M.D.). Next the statement reported that the accident was discovered on 26 August (however, there is also a statement of 23 August for the largest spill—M.D.) as a result of a helicopter flight by bodies for the protection of nature of the Komi Republic. On 6 September, after the laying of a backup oil pipeline, the leakage of oil products was eliminated. On 27-28 September after rains oil drifted from the left tributaries into the Kolva River. During inspection from a helicopter the oil film of a rainbow color along the left bank stretched over 3 km. Oil accumulated in the village of Kolva along the bank. A mazut cover was not detected in the Pechora River and along its banks...

Then completely calming words: "Cleaning operations in the section near the river in the village of Kolva have been completed fully... A total of 7,095 meters of banks were cleared and 2,160 cubic meters of ground with oil emulsion were removed... The situation in the region of the oil pipeline accident is under control. The measures taken are sufficient and help from the RF Ministry of Emergency Situation and the Ministry of Environmental Protection and Natural Resources is not needed."

And so there is no disaster. As far as the fuss in the world press is concerned, these are competitors' intrigues. And not a word about the vast man-made oil pools on the banks of the Kolva and its tributaries, which disappeared under the snow in the middle of October, nor about the thousands of tonnes of oil washed away by the waters of streams into the Usa and the Pechora in July-October. I do not know whether as a mockery, or in order to calm down deputies from the Komi Republic, the news arrived that in the village of Kolva the Komineft Joint-Stock Company at its own expense drilled an artesian well for residents (so that they may not die of thirst on the bank of the high-water and at one time clear river—M.D.) and the management of the joint-stock company allegedly intended to distribute cows from the local livestock yard to village residents free of charge (because the only watering place on the Kolva River was irrevocably polluted with oil).

Thus, the government finally made a statement to the world. In a television interview on 1 November, after the

meeting of the Commission on Operational Questions under O. Soskovets' chairmanship, Yu. Shafranik and S. Shoygu were unanimous: What happened cannot be classified as a disaster, it is only "an emergency situation." It is striking: Ministers drew their conclusion only on the basis of a 2-day stay of experts from the three ministries in the region of accidents 3 months after their beginning, (they would not have gone even then if that "hot" report had not appeared in THE NEW YORK TIMES), when a solid cover of snow lay on the banks of the Kolva, the Usa, and the Pechora. The expert conclusion and subsequent decision of the government commission was based on figures proposed by the management of the Komineft Joint-Stock Company, which criminally concealed both the beginning of the accident and its true scale! Moreover, Russia's government also accepted the version of oil industry workers of the Komi Republic, according to which the alarm of the West and the series of publications on Usinsk accidents pursued only one goal: To ruin Komineft shareholders. You see, after the accident "the value of our shares dropped sharply." And what, was something else, perhaps growth, expected?

A large-scale oil pollution occurred in the basin of one of the planet's largest rivers falling into the Northern Arctic Ocean. Problems concerning the protection of nature of Arctic regions are among international priorities. Need one be surprised at the loss of trust on the part of foreign partners in us after accidents such as the Usinsk accident? Yet it is by no means the first.

In the last 7 years about 40 emergency situations have occurred there. According to the conclusion of the Pechora Scientific Research Institute of Oil, a complete or partial destruction of the pipeline could be expected as early as March 1990. It only remains to guess how much oil was spilled during the next 4 years.

In the Usinsk region since the beginning of this year the situation continued to remain critical—every day at the worn out pipeline a new accident was expected and it was not slow in happening. The next depressurization occurred on 23 January. The Russian Federal Mining and Industrial Oversight prohibited the operation of the oil pipeline and the Komineft Joint-Stock Company was forced to urgently complete the construction and testing of a parallel pipe about 50 km long (and again without anticorrosion protection!). Thus, it is also short-lived and temporary.

A heavy May flood is just around the corner (for example, the Kolva level is rising to 9 meters!). It threatens to spread widely over the forest tundra tens of thousands of tonnes of oil from man-made pools, which the Komineft Joint-Stock Company obviously does not

manage to remove. Consequently, rivers with all living things in water and on banks will again suffer.

Quicksilver or "Black Gold"?

This is an incorrect formulation of the question, the attentive reader will say, and he will be right: Of course, we need both fish and oil. However, the way our oil industry workers still work, one rules out the other. In the Pechora Basin Russia risks losing the largest herd of the Atlantic salmon (skegger) and reserves of the most valuable whitefish (nelma, cisco, broad whitefish, pelyad, Arctic cisco, and vendace).

I have in front of me desperate appeals by specialists of the Northern Department of the Polar Scientific Research Institute of Sea Fishing and Oceanography imeni N.M. Knipovich (SevPINRO) sent "hot on the trail" of Usinsk accidents to various federal addresses, that is, the Ministry of Environmental Protection and Natural Resources, the Ministry of Emergency Situations, and the extra-departmental Ichtiological Commission, as well as to the leadership of the Komi Republic, with the request to find the opportunity of financing urgent field and scientific research work on evaluating the destructive effect of oil pollution on the fish fauna of the Pechora Basin. They did not receive an answer to any of these letters. Yet it was a matter of the most urgent work—collections of biomaterial and samples of fish "for the determination of oil products in them" (just think to what we have come!—M.D.) during the period when fish roll down from spawning grounds (January-February) and during their settlement on fattening areas in the lower reaches of the Pechora (early spring). Oil industry workers—main destroyers of the river and of all the living things in it—also kept silent.

During some years accidental oil drifts along the Kolva River blocked the rise of whitefish to spawning grounds located in the middle part of the Usa River. The death of whitefish was often noted in the lower reaches of the Pechora, which indicated a critical level of pollution of Pechora waters. The threat of a real degradation of the basin's ecosystems prompted scientists to develop the "Clean Pechora" project, but, owing to the lack of financing, it was not realized.

The ecological and economic damage is vast and does not lend itself even to a tentative evaluation without preliminary research. Taking its need into consideration, the author of these lines proposed that the State Duma place under its control the expenditure of the term credit of 125 million U.S. dollars granted to the Komineft Joint-Stock Company by the International Bank against guarantees of the Russian Government and with the support of our parliamentary commission. By

an overwhelming majority the State Duma voted for the financing of ecological monitoring in the Pechora Basin through the efforts of the Russian Federal Service on Hydrometeorology and Environmental Control (2.132 billion rubles) and of scientific research of SevPINRO on the study of the effect of Usinsk accidents on the state of salmon and whitefish in the Pechora Basin (700 million rubles).

And so, how much does Pechora cost and are the profits obtained by us from the activity of the Komi Joint-Stock Company comparable with the losses that we have from it? People again protest to me that the question should not be posed in this manner. After all, on one scale there is almost one-half of Russia's entire European North (according to pre-Soviet terminology, the Russian North), which, before oil industry workers came there, was a vast natural reservation with countless reserves of reproducible resources of the plant and animal world; on the other, 7 or 8 million tonnes of oil produced in the Komi Republic, that is, approximately as much as is annually spilled into the soil and rivers from Russian oil pipelines. Russians have something to think about.

Meanwhile, the high-water Kolva, Usa, and Pechora must be saved from the terrible threat hanging over them: The early rise in temperature (during the day it is up to 8-12 degrees here) promises an impending flood and a wide spread of unremoved oil. That is, hardly any time is left for eliminators of the consequences of Usinsk accidents. If only they managed to build protective dams on rivers and large streams!

According to various evaluations, for now from 10 to 15 percent of the ground "covered with mazut" (these words did not exist in the Russian language previously, but now they are on everyone's lips) has been removed from the swamps flooded with oil. However, what does "removed" mean?

Daily reports from work sections state: "So much... has been removed..." In fact, however, it has been moved from one place to another. For now no one knows what to do next with the growing volumes of this black mash (a mixture of peat, sand, and heavy high-paraffin oil). Often one can hear—to burn.

Well, this is the usual thing. As oil is produced here, so do these man-made fires burn on Pechora expanses, at times eclipsing the sun itself. Now, however, the scale of burning promises to be such that the only thing to do is to evacuate residents (first of all, children) from Usinsk, so that they may not breathe the black stench.

People should be given their due. They work on all the nine sections flooded with oil, despite the lack of

roads, special equipment, and wages. The preferential dollar credit allocated by the World Bank has not yet reached workers: Some incomprehensible games are going on between the bankers of the Komi Republic and Moscow. However, financial and economic bosses should be careful not to outwit themselves and cause a truly black spring in the long-suffering Pechora region.

***Oil Company President on Reforms in Oil Complex**

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in Russian 27 Apr 95 p 10

[Interview with Sergey Muravlenko, president of YUKOS, conducted by Aleksandr Tutushkin, special correspondent of KOMMERSANT-DAILY: "Sergey Muravlenko Sees the Future Vertically Integrated"; date and place not given]

[FBIS Translated Text] Against the background of the general confusion in the Russian economy the oil complex is a sector, where reforms are conducted in the most sensible way, although not as quickly as expected. In the 2 and 1/2 years following the choice of the strategic course for the establishment of vertically integrated companies, these new-born structures have begun to acquire the sought features and now hold their first shareholders' meetings. This evening such a function will be held at YUKOS. The day before Sergey Muravlenko, president of the company, gave an interview to Aleksandr Tutushkin, special correspondent of KOMMERSANT-DAILY.

[Tutushkin] Reform in the oil complex began in 1992 and its end is not in sight. Is it already possible to talk about some results?

[Muravlenko] Of course, what was expected and what occurred were two very different things. After all, when we were about to decide on the establishment of closed-cycle structures in the oil industry, we thought that, simply speaking, we—both Yugansk oil industry workers and Samara refiners—would live better. Unfortunately, this has not happened. This has not happened, because of what is taking place in our economy as a whole. Although now it is said that the situation is improving, we do not feel this. The chain created in the oil complex has ruptures, first of all, owing to the insolvency of our market. Hence the financial problems, social tension, and lack of faith on the part of many people in the correctness of the chosen strategy. The 2-year experience in our existence shows that it was naive to expect the well-being of a separately taken sector in a country affected by a general economic crisis. With regard to the very idea of vertically integrated companies, I believed and I continue to believe that the future is theirs.

Moreover, the growth of the Russian economy will begin with them.

[Tutushkin] The completion of structurization of companies now is the "hottest" subject in oil circles. There are countless rumors and assumptions hovering over the still "not built on" enterprises. Does this ferment affect YUKOS?

[Muravlenko] Disregarding the difficult financial situation, this is our most serious headache. However, whereas macroeconomic problems cannot be solved with a stroke of the pen, the distribution of production facilities throughout companies is a largely bureaucratic process. The impression is that someone deliberately hinders it. Here is a striking example. Nearly a year ago we reached an agreement with the management of the Ministry of Fuel and Energy that the extracting Samaraneftgaz Joint-Stock Company would enter our company. This is logical, because in this region YUKOS already has three oil refining plants and a large sales enterprise—Samaraneftprodukt. For an entire year we have been working closely with this joint-stock company and have been forming joint programs for geology and retooling. Quite recently we have conducted very useful negotiations with Konstantin Titov, head of the Samara Oblast Administration. We signed an agreement, according to which, with due regard for the fact that Samaraneftgaz will enter YUKOS, we are establishing in the region a subsidiary company under the name of YUKOS-Samara, where the Kuybyshev Oil Refining Plant and Samaraneftprodukt will also enter. This is a very serious plan, but how can we work on it if both Samaraneftgaz and YUKOS have been in a suspended state for a year—their relations have in no way been legally affirmed by the government. Moreover, now, when the draft of an appropriate decree is ready, doubts have appeared in the ministry: Is it not better to leave this enterprise in Rosneft?

[Tutushkin] What are the annual results of the company work, which the shareholders' meeting will sum up?

[Muravlenko] 1994 was the first full year, during which our enterprises functioned as part of the company. Its results can be viewed in two ways: On the one hand, we fulfilled our obligations regarding oil production and refining. However, the difficult situation in the economy pushed us away from the tasks that we set—to make a profit and to pay dividends to shareholders. The heart of the company—the Yuganskneftgaz Joint Stock Company—found itself in a critical financial situation. Huge nonpayments have led to the fact that it has ended the year with a negative balance and is unable to pay dividends. Therefore, we have adopted the decision that other enterprises and the company

as a whole should not pay dividends either, because I think that everyone has made a certain contribution to the deplorable state of Yuganskneftgaz. However, both during the year under review and during the previous year we fulfilled our main task: In eight Russian oblasts entering the zone of our responsibility, basically, we met the need for oil products and prevented disruptions in the supply of fuels and lubricants for sowing and harvesting campaigns. That is, on the whole, we coped with the annual program. It is gratifying to note that stabilization in oil production has begun to show this year: During the past months Yuganskneftgaz has been overfulfilling planned indicators. Arrears of wages of oil industry workers have decreased significantly.

[Tutushkin] Have the measures to limit the independence of your enterprises taken by YUKOS management at the end of last year really become decisive for the company's integration into an efficient economic organism?

[Muravlenko] From the moment of the company's establishment it, like all others, has been in a difficult financial situation owing to domestic and foreign nonpayments. Therefore, since the first days YUKOS management independently, irrespective of government attempts, has sought the way out of this situation. I will not enumerate all the measures that we have taken, because they have not produced tangible results. By the end of the year YUKOS management finally became convinced of the need for a tough decision: To deprive subsidiary enterprises of the right to dispose of their own products and to carry out the entire sale of oil and oil products through the company. This became a strong blow for enterprise managers, but we did not have an alternative. The experience of foreign firms and LUKoil indicates that only with such a centralization can oil companies and their subsidiary structures exist normally. During the first months of work we, too, felt an improvement in the situation. The only thing that I regret is that such a step was not taken earlier. Apparently, tough measures will continue to be taken.

[Tutushkin] However, does the establishment of YUKOS-Samara not run counter to this line? Will this structure, a reduced analog of the parent company, not try to get out of its control?

[Muravlenko] I don't think so. After all, we decided on such a project not offhand, but after a careful analysis of the activity of foreign firms. American Amoco, which is also built according to the territorial principle, is the most characteristic example. Its subdivisions Amoco Canada and Amoco Eurasia include all technological links—from a well to a gas station. Nevertheless, they operate normally. I will say more, the establishment

of such a structure in Nefteyugansk as well would be an ideal alternative for us. Unfortunately, the necessary base does not exist there as yet.

[Tutushkin] In the construction of the company you lean on the experience of Amoco. This is your strategic partner in the development of one of the largest fields in Russia—the Ob field. Why does YUKOS not operate independently in this project?

[Muravlenko] First, we need huge investments, which we cannot find on our own, but the state does not have money for this. Second, we need efficient and, at the same time, nature saving technologies, which we also do not have as yet. We chose Amoco as a partner, because this company has a great deal of experience in work under similar natural conditions and is considered, as they say, one of the safest (ecologically). Our forces have been developing the Ob field for several years, but we cannot begin the development of the part where principal oil reserves are concentrated, because precisely there nature is most vulnerable. Amoco will help us get there.

[Tutushkin] And how are things with the search for investments in this project? Not long ago the press reported that the World Bank refused to finance the development of the Ob field.

[Muravlenko] This is not quite so. Not long ago I was in Washington, met with the bank's management, and can present the situation, as they say, firsthand. We and Amoco turned to the World Bank with the request to allocate credits of 500 million dollars to each of us. The bank agreed in principle and for half a year after this we were preparing the necessary documents. Suddenly, however, the bank's position changed not only on our project, but on all similar projects. It decided not to give any more direct credits and limited itself only to a guarantee of the funds granted by commercial banks. It is suggested that we ourselves search for such banks.

[Tutushkin] Does this suit you?

[Muravlenko] Both our position and that of Amoco on this matter is sharply negative. First, such a scheme immediately transforms us from partners into competitors: Even if we receive guarantees, we will have to go to banks and they will decide to which one of us they should give preference. Second, it is not so simple to find a bank capable of allocating at least 100 million dollars, but we need much more. Consequently, it will be necessary "to comb" an entire network of banks. As a result, the process of obtaining credits will be delayed repeatedly and we will not begin field development soon. Nevertheless, we hope for a change in the

policy of the World Bank; in particular, after its new head begins to perform his duties.

[Tutushkin] Western companies work wherever this is possible and profitable. However, for Russian oil industry workers going abroad is still an exception. What is the YUKOS strategy in this respect?

[Muravlenko] Undoubtedly, we should go abroad and for many reasons. The main one is of a strategic long-term nature and lies in the need to expand the company's resource base and to preserve oil reserves in the country. Look at American companies: Antarctica is the only place where they do not operate. Meanwhile, many of them have at their disposal substantial oil reserves in the United States. However, these fields often are conserved. Americans realize well that reserves of raw materials in the world are not limitless and, therefore, prefer, first of all, to pump out someone else's oil. Nor are their ecological considerations on the bottom of the list. Objections can be raised that, since our companies have a shortage of funds, it is no time to imitate Americans. However, one does not enter the world market in 1 or 2 years. If we do not begin now, when we augment our capital, many points, to which we can aspire today, will already be closed to us. There are also other reasons to rush abroad. In particular, they include a milder tax regime and a higher, as compared with export from Russia, price of oil. Moreover, to simply announce ourselves in the world is also a necessity if we want to be reckoned with.

[Tutushkin] On what projects do you work in the world?

[Muravlenko] I will say right away that we are just beginning. Therefore, it is still early to talk about some serious results. The search for and production of oil in Peru is the most advanced foreign YUKOS project. Literally yesterday it was reported to me that in the first exploratory well there 980 meters were drilled. I hope that we will complete it in June. Our further activity in that country will depend on the results obtained. Right now the interest in the project is very great. The president of Peru visited our drill site recently. Moreover, we are conducting negotiations with oil companies in Bolivia and Ecuador—also regarding the search for and production of hydrocarbons in their territories. Our specialists have already been there and now are studying geological materials and proposals by Latin Americans. I will not say that these are very large projects, but the very fact of our presence in this region—the traditional domain of American oilmen—is very important to us. In Europe YUKOS plans are connected mainly with the transition from the export of crude oil to its refining at local plants and the sale of finished products to final consumers. By order of the

RF minister of fuel and energy YUKOS was appointed the head oil exporter to Hungary and, therefore, we want, first of all, to realize such a scheme of deliveries precisely there. Croatia is also of great interest to YUKOS. Owing to the lack of raw materials, a large oil refining plant in Rijeka, to which the Adriya oil pipeline has been connected, is virtually idle. I was there not long ago and I hope that this year we will be able to come to an agreement on the production of fuel from our oil at that plant.

[Tutushkin] However, this does not exhaust the company's foreign economic activity. There are rumors that YUKOS is buying up gas stations in the United States. Is this correct?

[Muravlenko] As always, these rumors are exaggerated. We are conducting negotiations with several companies, including Shell, on leasing three stations in Houston. Why not? If foreign companies start gas stations in our country, why should we not do this in their country? At first, even if for advertising purposes in order to place our emblem firmly in America's oil capital.

[begin box] Comments

According to the old Soviet tradition, the oil complex continues a direct and indirect subsidizing of other sectors and budgets at all levels through nonpayments, lower prices, and rising taxes. Under these conditions the rescue of those drowning becomes their personal problem and YUKOS management has obviously been late with its solution. The company asked consumers "to understand its position" and to pay for fuel for too long and Mr. Muravlenko himself understood the position of agrarians for too long, crediting them with fuel—often without repayment. Largely owing to the excessive—for an oil industry worker—sense of responsibility of

its head for the conduct of sowing and harvesting campaigns, YUKOS did not organize control over flows of money and goods within the framework of the company, which led to the catastrophic financial state of Yuganskneftegaz (in contrast, for example, to LUKoil, which took care of this a year earlier). Now the sale of products in the company is centralized. However, it is not ruled out that this policy will encounter certain difficulties. For example, YUKOS-Samara, being a regional center of profit, but having production capacities on an all-Russian scale at its disposal, most likely, will seek to expand its financial powers within the framework of the company. According to the data of KOMMERSANT-DAILY, the decision on the establishment of this structure became a compromise between YUKOS and the oblast administration, which at first sought the transfer of the headquarters of the entire company to Samara. The introduction of Konstantin Titov, Samara governor, into the company's council of directors proposed at today's meeting also indicates that YUKOS management intends "to be friends" with local authorities. With regard to mutual relations with politicians at the federal level, Mr. Muravlenko constantly stresses his lack of any political biases and believes that not one of the existing parties or fractions expresses the interests of oil industry workers. The head of YUKOS can sometimes be seen within the walls of the State Duma. However, these visits are connected with his attempts to speed up the legislative activity of deputies, in particular, regarding the adoption of the Law on Division of Products, the absence of which, for quite understandable reasons, worries Mr. Muravlenko, because it hampers the realization of the largest YUKOS project for the development of the Ob field.

Department of Companies and Markets [end box]

National Affairs

***Reformist Mayor Describes Work, Obstacles**

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19 Apr 95 p 3

[Interview with Mikhail Pozhivanov, Mayor of Mariupol, by G. Cherenkova: "The City of 'Little Vera' Gives Credit to the Young"; place and date not given]

[FBIS Translated Text] Hardly anyone in Mariupol now remembers Vasily Pichul's sensational early-perestroika film "Little Vera," but the hard-core communist city then known as Zhdanov took great offense at the young director, who had after all grown up here, and it plastered the black label of treason and blatant slander on the impudent cosmopolite who had run away to Moscow for glory. Pichul's mother actually had to change jobs because of her son's scandalous film; people who recognized themselves in the film persecuted her savagely, insulted her, and in short they acted like the characters on the screen.

But even after regaining its real name in the first mild attack of democracy, Mariupol still remained a city of "little faith [vera]"—with corrections for the new era: the city's the lightning-fast shift of metal sales to the West and its precision adjustment to international standards suddenly made Mariupol the most costly city in Ukraine, and on a chart listing the country's 20 richest people two Mariupol surnames ranked near the top.

Mariupol was already prepared for capitalism: along with garish designer clothing sailors also smuggled the Western way of life into their favorite city. Long before the historic events in the Center, Mariupol was nonconforming and well-fed and was rushing headlong into the Hollywood-style, Western-type beautiful life with scads of easy money got from God knows where, fine cars, garishly deluxe nomenklatura dachas in nature preserves on the shore of what official reports called the pristine Azov Sea. Even then, artists and poets considered Mariupol to be "vulgar" and crazy about the envious idea of total consumerism, living for the sake of its gut, a spiritual wasteland, a black hole, a railroad cul-de-sac. "And here the luminaries go out, cadres' indigestion and people's incontinence." Mariupol's unrecognized underground sought recognition for its talent, and found it far away, in the European capitals, but when it came back with its trophy it became once more unknown and misunderstood, and continued to nonconform over tea, philosophizing in the kitchens and the workshops. Internal emigration later turned into outright poverty and isolation from the market.

FROM NEZAVISIMOST'S DOSSIER

Mikhail Pozhivanov first came to people's attention last year on Vlad Listyev's "Tema," discussing the topic of higher education, its prestige and shortcomings. The young entrepreneur and candidate of sciences was an example of the unlimited opportunities of our education, making successful use of them himself. Mikhail Pozhivanov came from a family of metallurgists. He had been assigned to Mariupol as a volunteer in 1985 after completing the Moscow Institute of Steel and Alloys, and he worked as an assistant steelworker, and later as deputy chief of a converter shop in Azovstal Metallurgy Combine. In 1990 he quit the enterprise to start his own business, engaging in metal exports, construction, and the production and repair of loading equipment. In 1994 he was nominated for people's deputy to the Supreme Soviet, and he won. Now Mikhail Pozhivanov is the youngest mayor in Ukraine—and, in addition, he got his doctorate. He is the only mayor in Ukraine who has a college degree.

For young intellectuals, the path to power was solidly barred by the bosses and dons by means of the exclusive corruption and cronyism of elected officials. Even during the next, "ecological attack" of democracy—as brief as the attack of youthfulness—the new generation was unable to take advantage of the momentary confusion to get ahead. The bosses did not back up an inch. Having missed the elusive power, smart people—intellectuals with a higher technical education—shrewdly leaped into entrepreneurship, which was still free at the time. There, young engineers and scientists who were disillusioned with state service and knew how to adapt quickly to new things managed imperceptively to lay the foundation for the private economy and amass their first capital. While the bosses were once more destroying things down with bolshevik delight, the young entrepreneurs managed to pick up the pieces of the old system and make them into something new and strong. The new thirty-something business class, wearing suits from Versace and keeping emphatically aloof from politics, suddenly made itself felt in the elections. The indisputable leader among Mariupol's young entrepreneurs was a 34-year-old candidate of technical sciences named Mikhail Pozhivanov who was supremely confident in himself and the owner of several major private firms. A brilliantly organized Western-style campaign in the press and on television, including Ostankino, helped Mikhail Pozhivanov win the long, exhausting and not always clean game against the communists and the city's bosses.

For the first time, Mariupol experienced a kind of revolution: the Soviet regime of the "fathers" passed to the "children," who are fascinated with the ideas of market

economy and private business. The winner inherited not only the respectable, bright, European-style mayor's office but also the city's broken-down municipal system, a city and sea which Bella Akhmadulina once described as "ratty," an indecently skimpy budget, and people who were expecting the popular hero to produce a quick economic miracle, or at least stability and confidence....

Mihail Pozhivanov just came back from Kiev—he was in danger of combining the job of deputy and the post of chairman of the city soviet. He gets practically no days off; between conferences, his office hours end late at night. But Soviet rule has little physical endurance, Western-style enterprise, smart ideas, and sound initiative. The old system rejects rules that are accepted everywhere in the world, and it forces people to live and work contrary to laws in force.

Will the young mayor—now a doctor of sciences and author of a book called "Mariupol: Prospects of Rebirth"—succeed in reconciling socialism and capitalism, and Soviet rule with private business?

[Cherenkova] Mikhail Aleksandrovich, under you Mariupol has suddenly become incredibly popular, like a capital city, with private visits by famous political figures, major industrialists, and lots of press. You have easily rid the city of its conservative, provincial, has-been image....

[Pozhivanov] I never considered Mariupol provincial; it is quite famous for its enterprises and its seaport which handles 12 million tonnes of cargo a day. The products of its metallurgy giants, the Ilich Combine and Azovstal, are quoted in international markets. And at a time when many enterprises in Ukraine are almost bankrupt, have curtailed production, or are on their knees to the ministries, our combines are still holding on.

Mariupol cannot be a has-been. Looking at things in the language of figures, last year, according to government statistics, Ukraine had export transactions totalling 12,905,600,000 dollars, of which our provincial town accounted for one billion dollars—about 8 percent of all exports. Ukraine has 25 major territorial divisions, oblasts and republic-level towns, while we only have 550,000 inhabitants.

[Cherenkova] Right after you joined the city soviet you used your contacts in the business world to open the way to the West. And it produced quite a boost.

[Pozhivanov] Today Mariupol is represented in all world programs through the International Monetary Fund, the European Bank of Reconstruction and Development, the International Finance Corporation, and the Ukraine, Belarus, and Moldova Aid Fund. Mr Kowal-

ski came to Mariupol right after visiting Kiev. We have tried to convince business circles in the West of the seriousness, scope, and irreversibility of privatization in the city, the reality and feasibility of the free economic zone. But it would be wrong to think of the free economic zone as a Mariupol-type Taiwan after its economic boom. Capitalism cannot be built separately from Ukraine and Donetsk Oblast. Everything depends on state development: the more things improve in the country, the more they will improve here.

[Cherenkova] It's rather bold and risky to declare an ecological disaster town a free economic zone. The Greens—though the movement has remained rather quixotic, involving just a few people—are against the free economic zone.

[Pozhivanov] I hope that investors' funds will help open new, ecologically clean enterprises with modern technologies, perhaps not even involving metallurgy. And then we can think about partly closing down polluting shops in metallurgy plants. Already, of course, considering the danger of emissions to people's health—and the city has thousands of children suffering from asthma, and more and more young people are dying from cancer—we have the right to close down polluting enterprises. Mariupol should breathe the same clean air that Vinnitsa, Transcarpathia, and Volyn Oblast do, but 70,000 inhabitants will be out of work and the city won't have a budget. Since such enterprises are located in Mariupol, by logic the city ought to get substantial economic aid and compensation from the state. But the opposite is true. As in the old days, they take everything we have.

[Cherenkova] So the system of state administration continues to dictate and continues to play the old game of centralized control?!

[Pozhivanov] It quickly became clear that your own thoughts, ideas, and plans count for nothing. The main thing, apparently, is how some bigwig for Kiev or Donetsk looks at things. You have to fight for literally every karbovanets. By modest estimates, the city budget should have at its disposal at least 23.6 trillion karbovantsy per year, but the oblast gave us only 10.6 trillion, by the leftovers principle. During the election campaigns, almost all future Supreme Soviet deputies promised to form local soviet budgets from below, independently. In Parliament now, most have suddenly turned into concerned statesmen who think on the grand scale and forget their cities and rayons. But any state is strong through its small towns and communities. If the corps of deputies does finally return to their promises and make the necessary decisions I will know that the city budget depends on our work

here. Income and profit taxes ought to stay here 100 percent, and relations with the state should be regulated by excise and value-added taxes. Enterprise executives keep coming to me asking for money, and I can't answer them. It's not my fault that things are still so bad.

[Cherenkova] In the post-Soviet period Mariupol has become a costly city, surpassing even Odessa and Kiev. The shops are filled with imported goods which are not accessible to everyone, yet the business plans of Mariupol's major firms say that the biggest argument in favor of foreign investment is our cheap manpower.

[Pozhivanov] As Winston Churchill said, "Capitalism is the unequal distribution of prosperity; socialism is the equal distribution of poverty." We are in a transition period. Price levels in the city are determined by the metallurgy plants. Ukraine-made goods are more costly, and imported goods are no cheaper. As long as agriculture exists on subsidies and shies away from private ownership and the new economics, imports are more profitable and accessible. The question here today is no longer "What to buy and where?" but only "For what?" In the free economic zone's business plans we followed the basic law of management: "Big pay—big effectiveness," and therefore set the average wage at 250 dollars.

[Cherenkova] Last year you promised separate apartments to war veterans who are on the waiting list for housing.

[Pozhivanov] I kept my word: 66 out of 90 war veterans got their orders; the rest will get them soon. We came up against a problem: the new building designs call for a limited number of one-room apartments. The situation itself is absurd, of course: it will take half a century to give people what they have coming to them.

[Cherenkova] There's talk in the city that recently you offended pensioners by suggesting they get out of their spacious apartments and move into one-room apartments or even move into communal flats if the rent was beyond them.

[Pozhivanov] Those rumors started after the communists' March rally. My old communist opponents are unable to think up anything else. The authors of this latest filthy rumor are ready to throw mud despite what is well known and obvious to all. How could I herd aged folks into communal flats and offer individual apartments to others?

[Cherenkova] In an interview with Moscow's NEDELYA, writer Leonid Kanevskiy recalled meeting with an entrepreneur named Mikhail Pozhivanov, a man living the way people live in a normal world. You told Kanevskiy that you "hate poverty, it breeds flawed

people. Our people should not live worse than people do in the West. They should live better. They deserve it."

Will Mariupol's people ever live as well as in the West?

[Pozhivanov] I still hate poverty. I hope the creation of the free economic zone is not a romantic idea but rather the result of careful scientific calculation which will help the city grow rich—and, consequently, its inhabitants. But it won't happen overnight.

[Cherenkova] In converting to the market we are clearly losing things that are more valuable than any money—spiritual values, culture, faith. Yet the word "credit" itself comes from a word meaning "he believes."

[Pozhivanov] The local budget does not permit total support for culture, but the city soviet does finance major events and city celebrations. The local soviets are not yet able to help creative members of the intelligentsia; they have to confine themselves to mass culture. But people will gain faith, the road to the temple is open. The city is going to have another church, which I am funding myself.

*Parliamentary Performance Faulted

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[Article by Vladimir Katsman: "In One Year Ukraine's Supreme Soviet as Presently Constituted Has Taken 365 Steps Away From Parliamentarianism"]

[FBIS Translated Text] The results of the elections (more specifically, the second round of elections) to the Supreme Soviet of Ukraine were announced exactly a year ago. The first plenary session was held in May, but the Parliament as presently constituted can boldly count its existence from last April, because the arrangement of political forces within it was clearly visible right then. And the social-communist majority that has been talked about so much celebrated its victory in April 1994. It is easy to recall that for many who called themselves democrats it was something of a shock. Many whose names used to delight people at rallies found themselves outside the country's supreme legislative body. "Soviet rule's triumphant march through Ukraine"—that's how the losers bitterly characterized the process. At the time, by the way, they had not lost hope: many deputies came to Parliament under the banners of centrism, and almost immediately processes of the creation of centrist, most centrist, and super-centrist factions and groups began to ferment.

Observers of these processes in those days commented that one of the most positive results of the renewed

Parliament was the emerging new shoots of structurization. By the way, this comparison—of the "old" (1990 model) and the "new" (1994 model) parliaments—accompanies the whole brief history of the present Supreme Soviet. Sad to say, it is not always in favor of the latter—primarily because, in my view, the emotional, feisty, and contradictory Parliament-1990 gave Ukrainian politics many brilliant personalities. Taking a closer look at the membership of the most energetic teams in today's political games, we note that even now the key roles are played by those who took to the field during the first parliamentary and presidential elections. We can also single out these politicians in the present Supreme Soviet—Plyushch, Lanovoy, Sobolev, Chornovil, Kravchuk, Khmara, Pinzenik, Stetskiv, Yemets, and others. Most of the newcomers to Parliament proved to be unready for the role of leadership in today's Ukrainian politics. This is probably what influenced the fact that the seeds of structurization remained nothing more than that. Moreover, by the end of the first parliamentary year the hastily formed factions and groups were falling into decline. This was especially true of the centrist deputy associations. Nominal independents, "turncoat" deputies, retired faction leaders, and informal deputy leaders—everything came together in the house on Grushevskiy Street. More than one observer these days is predicting changes both in the internal makeup of the factions and groups and in their quantitative figures. Only the party factions are remaining more or less united (for example, the communists, socialists, Rukh, and the Peasants Party); this is one more argument in favor of changing the future electoral system.

From the very first, this Supreme Soviet has been shattering people's hopes that it would function more constructively and productively than the previous one. The first little thing it stumbled over was the scandalous "Grinev Affair," which was echoed later by less successful attempts to cook up Yemets, Ioffe, Kravchuk, and Lukyanenko "affairs": the "bell tolled" more than once in Parliament for many.... Parliament did manage to draw up a thick book of rules, but you won't find many who would dare count how many times the rules have been broken during plenary sessions. The tendency for this was laid down back when the Parliament presidium and leadership were being formed. Promising to engage strictly in the making of laws, the deputies hardly ever went a day without interfering in the business of the executive branch. And today the hall of sessions is ringing loudly with directives to the government (ordered to resign!) and resounding with demands that mayors and chairmen of rayon executive committees turn on or turn off water and heat, dig or fill in trenches, get around to paying stipends and pensions or confiscate

the Peugeots and Mercedeses from "bloodsucking businessmen." Deputies—especially on the left—have tried to halt the process of privatization, which is having a hard enough time as it is in our country. Having listened to and, as it turns out, hypocritically endorsed the October presidential program of radical market reforms, Parliament has not been in any hurry to supply the legislative base for items of the program. Not only that but those on the left, who hold the controlling shares in the Supreme Soviet, have been shooting "poison" arrows at those members of the government who favor the market and have pestered Leonid Kuchma with charges of "turning the country capitalist." This has worsened the friction between the branches of government, culminating in the clash in Parliament during the second reading of the President's draft Law on Authority. By the way, the Law on Authority has, like litmus paper, brought out into the open all the clashes and conflicts within the supreme legislative body which Parliament's leaders were "sweeping under the rug" in order to keep its dirty linen from public view. For many deputies, this fear of openly declaring that the presidential initiative is unacceptable to advocates of a parliamentary republic is combined with the fear of ending up as unemployed ex-deputies. Isn't that why the parliamentarians' own decree prohibiting deputies from holding additional professional posts has not been complied with? Isn't that why a law on deputy recall hasn't even been passed? Isn't that why the spectre of Russia's bloody October 1993 keeps getting invoked in Parliament, even though the President has declared over and over that even his most drastic steps will comply with the Constitution and laws in force?

Another dramatic aspect of the situation is the duplicity of the head of Parliament: although he calls loudly for reform (because of his official position?), Aleksandr Moroz is still the leader of the party which is officially in opposition to all the country's executive bodies precisely because of its unwillingness to reform anything. But criticism of Aleksandr Moroz's style and methods and calls for changing the leadership have come up against a rigid bloc from the left majority.

Judging by the ease with which the present Parliament has changed the government and the Prime Minister, we may assume that it will beat the record of the previous Supreme Soviet, which, as we know, replaced three cabinets.

The Supreme Soviet as presently constituted has been in place almost a year, but, alas, not on a positive note. Every day that the Law on Authority drags on actually brings closer the time when a plebiscite of confidence in the supreme legislative body may be called. And it is more than a matter of a presidential

grudge against Parliament. As we know, there are only two entities—the people and the Parliament—that can engage in legislative activity. And if Parliament itself throws the baby out with the bath water and is unwilling to pass laws on market reform, clearly the people have the right, first, to say what they think about such a Parliament, and, second, to take the initiative either of nationwide discussion of the Fundamental Law or convene a Constituent Assembly (started, of course, by the elected President).

This Parliament is probably not hopeless. And the author of these polemical lines is willing to name the names of those deputies who are really trying to defend the interests of the voters in other ways besides verbal exercises broadcast directly by radio. One may predict that these people will be granted a long and fruitful political life—very likely we will see them in a third or fourth Parliament, and in the Constituent Assembly. But there will be plenty of positive things to say both in the official reports by the Parliament's leadership and triumphant speeches on the occasion of the anniversary

which will surely be delivered in the Supreme Soviet. Of course, if the members of Parliament would realize that they are doomed to a harsh verdict from their constituents and would undertake to step down on their own, it would be a wonderful gift to the Ukrainian people.

The emergence of parliamentarianism has never gone painlessly or cloudlessly in any country. But whenever parliamentary traditions have been forged through travail, society has cherished them and held them sacred. A smoothly operating parliamentary machine in which strong expert and juridical groups drafted the laws, and chambers representing the interests of both the population and society's political strata projected them onto reality and voted on the final decision, would make it possible to bring the country and its people out of even its most dead-end and super-critical predicament.

Sad to say, Ukraine has not made much progress in this regard.

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